Canada. Parliament. House of Commons
Standing Committee on Banking and
Commerce
Minutes of proceedings and evidence
[respecting the bank of Canada]

1939. no. 1-25

Canada. Banking & Commerce, Standing Comm. on 1939

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 1—25

WEDNESDAY, MARCH 8, 1939

THURSDAY, MARCH 16, 1939

JUNE 1

WITNESSES:

Dr. W. C. Clark, Deputy Minister of Finance

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MEMBERS OF THE COMMITTEE

Mr. W. H. MOORE, *Chairman*

and

Messieurs

Baker
Bercovitch
Cahan
Clark *(York-Sunbury)*
Cleaver
Coldwell
Deachman
Donnelly
Dubuc
Dunning
Euler
Fontaine
Fournier *(Hull)*
Fraser
Harris
Hill
Howard
Hushion
Ilsley
Jaques
Kinley
Kirk
Lacroix *(Beauce)*
Landeryou
Lawson
Leduc
Macdonald *(Brantford City)*
Mackenzie *(Vancouver Centre)*
McGeer
McLarty
McPhee
Mallette
Manion
Martin
Maybank
Mayhew
Perley
Plaxton
Quelch
Raymond
Ross *(Middlesex East)*
Ross *(St. Paul's)*
Stevens
Thorson
Tucker
Vien
Ward
White
Woodsworth—50.

R. ARSENAULT,
Clerk of the Committee.

ORDERS OF REFERENCE

FRIDAY, January 27, 1939.

Ordered,—That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, February 7, 1939.

Ordered,—That the name of Mr. Ilsley be substituted for that of Mr. Rutherford on the Standing Committee on Banking and Commerce.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, February 20, 1939.

Ordered,—That the Report of the Bank of Canada for the year ended December 31, 1938, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, March 8, 1939.

Ordered,—That the said Committee be given leave to print, from day to day, 500 copies in English and 200 copies in French, of its minutes of proceeding and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the quorum of the said Committee be reduced from fifteen to ten members, and that Standing Order 63 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

WEDNESDAY, March 8, 1939.

The Standing Committee on Banking and Commerce begs leave to present the following as a

FIRST REPORT

Your Committee recommends:

1. That it be given leave to print, from day to day, 500 copies in English and 200 copies in French, of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

2. That the quorum of the Committee be reduced from fifteen to ten members and that Standing Order 63 be suspended in relation thereto.

All of which is respectfully submitted,

W. H. MOORE,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, March 8, 1939.

The Standing Committee on Banking and Commerce met at 10.30 a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Bercovitch, Clark (*York-Sunbury*), Cleaver, Coldwell, Dubuc, Fontaine, Ilsley, Jaques, Kinley, Lacroix (*Beauce*), Landeryou, Leduc, Mallette, Moore, Quelch, Stevens, Tucker, Woodsworth.

In attendance: Dr. W. C. Clark, Deputy Minister of Finance.

On motion of Mr. Coldwell,

Resolved,—That the Committee request permission to print, from day to day, 500 copies in English and 200 copies in French, of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Cleaver,

Resolved,—That the Committee request permission to reduce its quorum from fifteen to ten members, and that Standing Order 63 be suspended in relation thereto.

Mr. Clark moved that the Committee ask leave to sit while the House is sitting.

At the request of several members of the Committee, it was agreed to let this motion stand.

The Chairman read an Order of the House dated February 20, referring to the Committee the Report of the Bank of Canada for the year ended December 31, 1938, and invited the members to offer suggestions as to the procedure the Committee might follow in considering this Report.

On motion of Mr. Coldwell,

Resolved,—That an agenda sub-committee be appointed by the Chairman, the said sub-committee to report to the Committee.

Messrs. Cleaver and Stevens suggested that members of the Committee be provided with copies of Federal Statutes such as the Finance Act, the Currency Act, and others bearing on the questions to be discussed, as well as copies of Orders-in-Council relating to certain operations of the Bank of Canada. The Chairman stated that Dr. Clark had consented to prepare a digest of the information required, as well as a glossary of monetary terms.

The Committee then adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, March 16, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Bercovitch, Clark (*York-Sunbury*), Cleaver, Coldwell, Deachman, Donnelly, Dubuc, Fontaine, Hill, Ilsley, Jaques, Kinley, Kirk, Lacroix (*Beauce*), Landeryou, Leduc, Macdonald (*Brantford City*), McGeer, Mallette, Manion, Mayhew, Moore, Perley (*Qu'Appelle*), Quelch, Ross (*St. Paul's*), Stevens, Tucker, Ward, Woodsworth.

In attendance: Dr. W. C. Clark, Deputy Minister of Finance, and Mr. Graham Ford Towers, Governor of the Bank of Canada.

The Chairman presented the first report of the sub-committee on procedure, as follows:—

Thursday, March 16, 1939.

> Pursuant to a resolution of the committee adopted on March 8, the following members have been selected to act, with the Chairman, as a sub-committee on procedure, viz:—
>
> Messrs. Bercovitch, Kirk, Lawson, Landeryou, McGeer, Stevens, Vien and Woodsworth.
>
> In view of the intricate questions involved in the subject-matter of the reference before the committee, your sub-committee begs leave to recommend the following initial procedure:
>
> 1. That Dr. W. C. Clark, Deputy Minister of Finance, be invited to open the proceedings with a statement bearing on certain Orders in Council, Federal Statutes, and definitions.
>
> 2. That Mr. Graham Ford Towers, Governor of the Bank of Canada, be heard immediately following Dr. Clark, in a general statement on the operations of the Bank of Canada.
>
> 3. That questions to be asked Dr. Clark and Mr. Towers be deferred until Mr. Towers has completed his statement.
>
> 4. That in examining the above witnesses, each member of the committee be allowed to complete his examination before questions are asked by another member.

On motion of Mr. Coldwell, the sub-committee's report was adopted.

Dr. Clark submitted for distribution to members of the committee, the following documents:—

(*a*) Glossary of monetary terms;

(*b*) Copies of the following Orders in Council:

P.C. 2617—Oct. 19, 1931
P.C. 1150—May 17, 1932
P.C. 2756—Dec. 17, 1932
P.C. 2660—Dec. 21, 1933
P.C. 1289—June 25, 1934

P.C. 3206—Dec. 18, 1934
P.C. 3960—Dec. 28, 1935
P.C. 3235—Dec. 22, 1936
P.C. 3124—Dec. 18, 1937
P.C. 3189—Dec. 20, 1938
P.C. 664—April 10, 1933
P.C. 760—April 11, 1934
P.C. 574—March 6, 1935
P.C. 475—Feb. 26, 1936
P.C. 426—March 1, 1938
P.C. 2693—Oct. 27, 1931
P.C. 3187—Dec. 31, 1931
P.C. 476—March 3, 1939.

(c) Copies of Regulations for the receipt of Gold Bullion at the Royal Canadian Mint, Ottawa.

Copies of the Report of the Third Annual General Meeting of shareholders, Bank of Canada, dated February 22nd, 1938, and the following Federal Acts were also distributed, viz:—

The Bank of Canada Act, 1934, and Amending Act, 1938,
The Bank Act, 1934,
The Currency Act, 1910,
The Dominion Notes Act, 1915 (certain issues),
The Dominion Notes Act, 1915 (repeal),
The Gold Export Act, 1932.

Dr. Clark was called and gave an historical outline of the Canadian monetary system.

Witness retired.

Mr. Towers was called and made a general statement on the structure, functions and operations of the Bank of Canada.

Witness retired.

By unanimous consent the sub-committee on procedure was authorized to determine what documents filed with the committee should be incorporated in the printed record.

The committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277.

March 16, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Order, gentlemen. The secretary has a report to read to the committee.

Report of the sub-committee read and adopted.

Dr. W. C. CLARK, Deputy Minister of Finance, called.

Dr. CLARK: Mr. Chairman and gentlemen, perhaps I should say first that the glossary of definitions that you asked for has been prepared and distributed. There may be a few other terms that we have left out which may be added at a later stage if you wish to have them added. I may say also that what we tried to do there was to give definitions of terms that are generally accepted. There are, of course, a great many variations in the usages of the various terms amongst economists, bankers and others. We cannot hope to give definitions that everybody will agree on, but I believe the idea of the chairman was that if we could give a definition of terms that may be used for the purposes of discussion it would help greatly to clarify the discussion, and then if somebody has a connotation of a particular term that is different from the one given here it would, I believe, expedite discussion if that particular person gave some other tag to his particular conception.

Then, in addition I believe you have had distributed to you a set of the statutes, or the main statutes covering our monetary system. Unfortunately, there are three or four of them that are out of print, particularly those relating to the old dominion notes act legislation, and I believe the Finance Act is also out of print. These acts have all been repealed and are not being reprinted by the Bureau of Printing and Stationery. Then, we have also had distributed a set of the orders in council relating to mint regulations, regulations under the Gold Export Act and regulations relating to arbitrary valuation of securities for banks and insurance companies in 1931. I believe that also was requested by some members of the committee.

I understand what you want from me is a brief outline of the Canadian monetary system, or rather the legal set-up of the Canadian monetary system, with some outline of the historical background. I shall not try to give a detailed historical account of the development of the monetary system. That would be burdensome and uninteresting. I believe the whole assignment is uninteresting enough. I shall try however, where that background is of interest and significance to current development, to throw in some of the historical background.

Coming, then, to our Canadian monetary system, you will note that in the definitions we have defined money in the widest sense, in the sense in which it is usually used in popular discussion; that is to say, money is any medium of exchange which is generally accepted in the settlement of business transactions, debts, and so on. It includes, therefore, all our coins; all our notes, whether issued by the central bank or by chartered banks, and bank deposits. I shall follow that classification in what I have to say. In other words, I shall discuss

coins first, and then Bank of Canada notes and their predecessors, the dominion notes, an dthen chartered bank notes, and then I shall say a word about bank deposits.

The statutory provisions in regard to coins are found, primarily in two acts, the Currency Act, which is Chapter 40 of the Revised Statutes of Canada, 1927, and the act respecting the establishment of the Royal Canadian Mint, which is Chapter 48 of the Statutes of 1931. That statute, is in reality an amendment of the Department of Finance and Treasury Board Act.

If you will look at the Currency Act you will get the basic provisions governing the coins that are current in Canada. In the schedule to the act you have a legal description of the coins, so to speak. Let us first take gold coins, which are no longer coined and are not in day-to-day circulation in Canada. The $20 gold coin is described there, inferentially at least, as a coin containing 516 grains of gold, nine-tenths fine. That is, the standard fineness is nine-tenths. Then, there are certain provisions showing the remedy allowance. In other words, the mint is given a certain leeway, a certain margin or remedy allowance. The weight of the coin must be the standard weight, within the remedy allowances shown in the last two columns. Then, there is another column which shows the "least current weight." That is to say, the actual coin must be of at least that weight, which is a little less than the standard weight, if it is to perform its function as legal tender in Canada. I referred to the $20 gold coin. The weight and fineness of the other gold coins are also given in this schedule. I might mention that while the gold dollar is not coined at all (it never was coined; the only Canadian gold coins whose coinage was provided for were the $20 gold coin, the $10 gold coin, the $5 gold coin and the $2½ gold coin) it was the standard of value in this country up until a few years ago. The gold dollar is equivalent to a weight of 25·8 grains of gold, nine-tenths fine, or if you like to put it another way, it is 23·22 grains of fine gold, with the remedy allowance that I have already referred to.

This schedule also gives the details with regard to our "subsidiary coins"; that is to say, the silver, bronze and nickel coins. It shows the standard weight and the remedy allowances and the standard of fineness which is necessary for the mint to use in coining these coins. Perhaps I can take the silver dollar as one illustration. The silver dollar contains 360 grains of silver, eight-tenths fine, with a certain remedy allowance. Now, as you know, the standard troy ounce contains 480 grains. The silver dollar contains 360 grains—that is, approximately three-quarters of an ounce, eight-tenths fine—and if you want to you can work out the actual intrinsic value of the metal in a silver dollar as three-quarters of one ounce times eight-tenths (for the fineness) times the current price of silver, which is 42 cents or 43 cents. It actually costs us at the mint, to make a silver dollar, not including overhead, 26 cents or 27 cents.

In addition, in the Currency Act you will find that the Governor in Council is given power from time to time by proclamation to determine the denominations of and the design of any new coins. In 1937, for instance, we had a new set of coins, a complete new set of subsidiary coins in Canada. The design and the denominations had to be approved by the Governor in Council. Council also may put out a new coin not listed in this schedule and determine the denomination of it and its remedy and least current weight. It may diminish the amount of remedy allowed by the schedule here in the case of any coin; it may determine the least current weight of coins; it may make regulations under which the Minister of Finance can redeem silver, nickel, copper or bronze coins issued for circulation in Canada which, by reason of abrasion through ordinary and legitimate use, are no longer fit for circulation; and it may call in coins of any denomination or any date. However, proclamation has to issue under section 20 of this act and this proclamation has to be published in the Canada Gazette.

[Dr. W. C. Clark.]

Another important section of the Currency Act is that which determines the legal tender power of our various coins in Canada. Legal tender money is any money that a debtor can turn over to a creditor in lawful discharge of a debt. In Canada under the Currency Act gold coins are legal tender up to any amount. Silver coins are legal tender only up to $10—that is, "partial" or "limited" legal tender as compared to "unlimited" legal tender which the gold coin possesses. Nickel coins are legal tender up to $5 and the bronze coins are limited legal tender up to 25 cents.

You will remember that under the Bank of Canada Act, Bank of Canada notes are given full, or unlimited, legal tender power. In addition, according to the Currency Act, the British sovereign, and its multiples, are legal tender in Canada. Under section 10, United States eagles, double-eagles and half-eagles used to be full legal tender in Canada. That applied to the coins that were issued by the United States mint any time from 1837 to the beginning of 1934 when the United States changed its provisions in regard to the weight and standard of fineness of its gold coins and in regard to the holding and acceptance of these coins.

I should also make a reference to the fact that section 21 provides for an examination and test of coins to show that the mint is carrying out its function in accordance with the law. That is the so-called "Trial of the Pyx," which we hold every year on the first Tuesday in May. It is an interesting ceremony. In the olden days it was a very serious thing for the master of the mint, if at the trial of the Pyx his coins were not found to be measuring up to the standard weight and fineness within the remedy allowance. If that happened he was subject, I believe, to the penalty of having his right hand cut off. To-day we treat our master of the mint somewhat more generously.

There is also a provision in the act which makes it unlawful for any person, except under and in pursuit of a licence granted by the Minister of Finance, to melt down, break up, or use otherwise than as currency any gold coin which is for the time being current and legal tender in Canada.

I should like to say a word about the Mint Act, Chapter 48 of the Statutes of 1931. As you know, the present Ottawa mint was established here back in 1908, as a branch of the Royal Mint, London, under the Imperial Coinage Act of 1870. It was not taken over by the Canadian government until 1931. Since 1931 it has operated as a purely Canadian institution, a purely Canadian mint, and is really a branch of the Department of Finance. Before the branch of the Royal Mint was established here in 1908, the coins that were used in Canada—not going back to the old days when we were using many sort of coins, but say, only to confederation—were coins obtained from the Royal Mint in London or from the mint at Birmingham.

For the first few years of the mint's operations after 1908, its operations were confined to the production of gold, silver and bronze coins for Canadian circulation, with a few British sovereigns and some small coins which were struck under contract for Newfoundland and Jamaica. The mint's first issue of gold coins was of sovereigns, with a small 'c' on them to indicate that the particular sovereign was minted in the Canadian mint. In May, 1912, our mint coined for the first time Canadian gold coins, and they kept that up for only a relatively few years. I believe that altogether some $4,800,000 of Canadian gold coins were struck at the mint in $10 and $5 gold pieces. None have been coined since 1914, I believe. The last gold sovereign was struck in 1919.

In recent years the refining of gold has been the primary activity of the mint. We still coin subsidiary coins, of course, but the bulk of the operations performed at the mint result from the refining of gold. Even before 1914 there were some small quantities of gold that were deposited at the mint for refining; but as you know during the war that type of operation increased tremendously.

As a result of war conditions, the mint here treated nearly twenty million ounces of gold for the British government or the Bank of England. One of the romantic episodes in the history of the mint was this tremendous operation carried out at that time and I believe with very great efficiency.

Since 1931, when the Gold Export Act was passed, that is, the act prohibiting the export of gold except under licence, practically all our newly mined Canadian gold has gone to the mint to be refined. We buy that gold; we refine it; we sell it on the world's markets. In the mint regulations, copies of which you have before you, you will find that we buy from the producers and we pay them the value of the gold based on the world market price converted into Canadian funds at the average rate of exchange prevailing in the week of deposit, after deducting the ordinary charges for assaying and refining and also a handling charge of 35 cents a fine ounce. In other words, the situation to-day is this: we will ship this gold to the world market where we can get the best price. Usually that is the United States. As you know, the United States government stands ready to buy gold at $35 an ounce. Sometimes, however, the best market has been in London; that is to say, in some cases it will pay us to ship to London converting the British price into Canadian funds, rather than to ship to the United States and convert New York funds into Canadian funds. We ship to the market where the best net price can be obtained. I could discuss at greater length, of course, the mint regulations, but I do not think this is necessary.

Perhaps I might now say a word about the Gold Export Act which was passed in 1931, and which, as I have already said, prohibits the export of gold from Canada except under licence issued by the Minister of Finance through a chartered bank or the Bank of Canada. For the last two years and to-day we issue these licences freely except where the gold has been coming from the country's monetary reserves. To-day, as I have said, a very large proportion of the newly mined gold comes to the mint for refining. There is a certain amount of gold, however, produced by certain mines, which has sulphur, arsenic or some impurity in it which makes it very difficult to refine economically in Canada. Where that is the case we are willing to grant a licence to the producer to ship that over to Seattle or to whatever other place can more economically treat it.

So much for coins. I pass now to the Bank of Canada notes, and I think it is probably desirable for me to give you here a little bit of history, or the background behind Bank of Canada notes. As you know, the present Bank of Canada notes are the successors to the old dominion notes which from confederation to 1935 were one of the most important mediums of exchange in this country. At confederation all our Canadian provinces had their own notes in circulation. The dominion took these notes over, assumed liability for them and substituted dominion notes for them. The first Dominion Notes Act was passed in 1868. It was a day of small things. That issue was limited to $8,000,000, and the provisions were these: up to the first $5,000,000 there had to be a twenty per cent gold reserve; the next $3,000,000 had to be backed by a gold reserve of twenty-five per cent. The maximum amount of notes and the reserves behind them, as you can see, were rather limited. Actually the notes were kept in circulation most of the time because they were needed as a medium of exchange and were accepted by the people. Then, there was a further provision in the Bank Act stating that the banks had to keep one-third of whatever cash reserves they had in the form of dominion notes.

We can pass over the next few years. There were a few minor changes in the law relating to the issue of dominion notes and the reserve behind them. I believe we can jump down to 1913 when we find the legal situation was the following: up to $30,000,000, dominion notes could be issued against a reserve of twenty-five per cent of gold or certain guaranteed debentures, above the

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$30,000,000, notes had to be backed dollar for dollar in gold. Actually, no use was ever made of the guaranteed debentures provision; in effect what you always had in those days was a twenty-five per cent gold coverage against the so-called fiduciary issue of $30,000,000 and above that a hundred per cent gold reserve.

In August, 1914 the partially covered issue was raised from $30,000,000 to $50,000,000. In other words, the government could issue the first $50,000,000 of notes against twenty-five per cent reserve; above that, dollar for dollar in gold. Then, in 1915 there was an act passed, chapter 4 of the Statutes of 1915, which provided for the issue of $16,000,000 of dominion notes against certain guaranteed railway securities, railway securities guaranteed by the Dominion of Canada. There was also an additional $10,000,000 issued for general government purposes against no specific authority. In other words, as a result of the 1915 act you had an increase in the issue uncovered by gold to the extent of $26,000,000. Then, going back a bit you have the beginnings of the Finance Act in 1914. You will remember that in the first few days of August, 1914, there had been a number of runs on chartered banks; there had been pretty heavy withdrawals of gold, particularly in Montreal and Toronto, and indeed you had in that period, the first month of the outbreak of the war, pretty much the atmosphere of an incipient financial panic.

On August 3 an order in council was passed authorizing advances to chartered banks, and to the Quebec savings banks, in the form of dominion notes against the deposit with the Minister of Finance of securities approved by him. Then, at the famous emergency war session held during the same month (August, 1914), an act was passed, called the "Finance Act," which confirmed the action that had already been taken by order in council and provided for the authorization by proclamation of similar advances in cases of war, invasion, riot or insurrection, real or apprehended, and in the case of real or apprehended financial crisis. I may add that that Finance Act also authorized the Governor in Council in such circumstances of emergency by proclamation to authorize the chartered banks to make payment in their own notes instead of gold or dominion notes; to use the excess circulation privilege (which I will refer to later) throughout the whole year; to suspend the redemption of Dominion notes in gold; and to establish a general moratorium. As you will remember, they never took advantage of the general moratorium provision—that was never put into effect. The other three provisions were made use of.

A proclamation, in pursuance of the Finance Act, was issued on September 4, and thenceforth throughout the war and the early post-war years, extensive use was made of the Finance Act, providing for these advances of Dominion notes against the deposit of securities with the Minister of Finance. In the so-called Macmillan report on banking and currency in Canada you can find, if you wish, the figures showing the amount of Finance Act advances outstanding at various times over the period from, I think, 1914, up to about 1932 or 1933.

In 1917 an emergency issue of $50,000,000 of Dominion notes was made to finance war purchases in Canada by the British government, secured by British treasury bills. That again was under the terms of the Finance Act. This $50,000,000 advance was gradually liquidated over the next few years, and was completely paid off by 1927.

In 1919 an act was passed providing for the continuance in force of the Finance Act until two years after the conclusion of peace. So your Finance Act went on until 1923, and in that year an act was passed which made the Finance Act a normal part of the post-war Canadian financial structure. This new act provided that at any time, when there is no proclamation in force under the authority of the Finance Act of 1914, the Minister of Finance may make advances to chartered banks and the Quebec savings banks, by the issue of Dominion notes against the pledge of approved securities deposited

with the minister. The act also listed the classes of security that could be deposited. It limited the duration of the advances to one year, and it authorized the Treasury Board to fix the rate of interest and to make regulations in regard to the advances, the terms and conditions of deposit, etc. In the Revised Statutes of 1927, chapter 70, you will find the act of 1914 there as part one, and you will find this act of 1923 as part two of the act.

The next step that we need to refer to relates to the year 1933. In March of that year an act was passed authorizing the governor in council to suspend the redemption of the Dominion notes in gold; and in the following month, April, an order in council was passed providing for the suspension of the redemption of Dominion notes in gold for a year. By subsequent orders in council, that suspension was extended from year to year. These orders in council are in the set of orders in council which you have.

Then in June, 1934, you had another change made in the Dominion Notes Act. That date, you will remember, was a few months before the time at which the Bank of Canada was to come into operation. As explained in the house at that time by the prime minister, there was a certain fear that, as a result of the coming into operation of the Bank of Canada, and the fact that advances to the banks under the Finance Act had to be paid off at that time, there might be a possible deflationary tendency in the Canadian banking system. So the Dominion Notes Act of 1934, provided for the raising of the fiduciary limit of the Dominion note from $50,000,000 to $120,000,000. In other words, after that time and for the few months until the Bank of Canada should come into operation, the government could put out up to $120,000,000 of Dominion notes backed by 25 per cent in gold. Above that, dollar for dollar in gold was required, except to the extent that the Finance Act operated and to the extent of the $26,000,000 issue provided for by the act of 1915. There was also a provision in the new act that silver bought under the International Silver Agreement of 1933 should be held in the reserves against Dominion notes.

Just to give you the picture at that time, I might mention that on May 31, 1934,—that is, about a year before the Bank of Canada came into operation—the total of Dominion notes outstanding was $171,110,950. Of that total, $26,000,000 had been issued under that old 1915 act; $38,440,000 had been issued under the Finance Act and $106,666,950 had been issued under the Dominion Notes Act proper. Against that total issue of $171,000,000 odd there was held by the government $69,166,950 of gold, valued at $20.67 a fine ounce. This meant that there was a small amount of gold ($371,002) held in excess of the legal requirements. The new amending act made it possible to increase the uncovered Dominion note issue by $52,871,000. The gold held at the time would have provided a reserve, at the old value of gold, of something like 31 per cent, and at the new value, the world market price of gold at that time, a gold reserve of 52½ per cent, if full advantage had been taken of the issue of fiduciary notes. I might add that in 1934, at the same time, statutory power was taken to repeal the Finance Act, the act of 1915, and all the acts relating to Dominion notes issue (including the Dominion Notes Amendment Act of 1934) by proclamation. The idea, of course, was that as soon as the Bank of Canada began operations, all these old acts relating to Dominion note issue should be repealed, and they were repealed, by proclamation. That is the story. That is the life history of Dominion notes.

Now we come to the Bank of Canada Act. Under section 23 of the Bank of Canada Act, the bank was authorized to take over the liability for outstanding Dominion notes, except the notes issued under the authority of the Finance Act—advances under this Act, as I have said already, were to be repaid by the banks on the day the Bank of Canada commenced operations. The liability for all the other Dominion notes outstanding on the same day was to be assumed by the Bank of Canada. Actually, when the bank came

[Dr. W. C. Clark.]

to open its doors on March 11, 1935, there was outstanding at that time, apart from notes under Finance Act advance, a total amount of Dominion notes of $185,445,000. When the Bank of Canada assumed that Dominion liability, the government in exchange turned over the gold which it had held against Dominion note issues amounting to $69,445,000, the silver which it held for the redemption of Dominion notes valued at the then market price, in the amount of $986,363 and five-year 3 per cent securities of the Dominion of Canada in the amount of $115,445,439.

Section 24 of the Bank of Canada Act also gave exclusive power to the Bank of Canada to issue legal tender notes in Canada. Those notes were to constitute a first charge upon all the assets of the bank. There was no limitation on the amount of their issue, except that the bank, under section 26 of the act, was required to keep a reserve in gold coin and bullion equal to 25 per cent of its note and deposit liabilities outstanding. There was also a provision giving the governor-in-council power to suspend that 25 per cent gold reserve provision for a 60-day period; this could be extended for subsequent 60-day periods, but not for longer than one year at one time without the sanction of parliament.

Under section 25, (1), of the Bank of Canada Act, Bank of Canada notes were made redeemable in gold bars containing approximately 400 ounces of fine gold. In other words, you have there a feature of the gold bullion rather than the gold coin standard which is referred to in the glossary of monetary terms. The governor-in-council was also given power to suspend this provision requiring the redemption of Bank of Canada notes in gold bullion, and has done so by order-in-council year by year to date.

Now I come to chartered bank notes. The first Dominion Bank Act was passed in 1871. At that time the banks were allowed to issue notes in denominations of $4 and upwards, up to the amount of their paid-up capital. The banks were required to receive their own notes in payment at any office, although the notes were only redeemable in gold at expressly designated offices of the banks, and one of those offices had to be the principal office. There was no specific reserve required against the notes; but there was the provision that of whatever cash reserves the banks did keep, one-third had to be kept in the form of dominion notes.

In 1880 bank notes were made a first lien on the general assets of the banks. The denominations were fixed at $5 or multiples thereof; and 40 per cent of whatever cash reserves the banks kept had to be kept in the form of dominion notes.

In the Bank Act of 1890 you have a more important provision inserted. This was the provision providing for the formation of the Bank Circulation Redemption Fund. The banks were required to deposit with the minister 5 per cent of their average yearly note circulation; and if necessary, further assessments could be made on the banks. Then if a liquidator of a failed bank did not arrange for the redemption of its notes, those notes were to be redeemed out of the Bank Circulation Redemption Fund. Another interesting provision was that, between the date of suspension of a bank and the date announced for the redemption of its notes, the notes of a failed bank were to bear interest at 6 per cent. That made it very attractive, really, to get the notes of a failed bank. I may also mention that, in this Act of 1890, the banks were required to establish various agencies throughout Canada for the redemption of their notes, the place of location of the agencies to be fixed by the governor-in-council. I might also mention that since that Bank Circulation Redemption Fund provision was put into the Bank Act, no note-holder of a Canadian chartered bank has ever lost any money. As a matter of fact, there have been no such losses since 1881.

I now wish to pass quite briefly over some of the remaining developments. In the Act of 1900, the Canadian Bankers' Association which had been formed as a voluntary association in 1892, I believe, was incorporated and was given supervision over the issue and destruction of bank notes. Following that and under that authority, by-laws of the Canadian Bankers' Association were passed, and approved by the Treasury Board in 1901, which required every bank to make a monthly return showing all the details of its note circulation. Provision was also made for the annual inspection of the circulation account of each bank. In 1900 also the interest payable on the notes of a failed bank was reduced from 6 per cent to 5 per cent.

Then you come to an interesting development in 1908. You will remember this was the period of rapid development of western Canada and the agricultural industry out there. For a number of years it had been becoming evident that the note circulation of the banks, limited to the amount of their paid-up capital, was approaching its limit. The situation was usually particularly acute in the crop-moving period of the year. So in 1908 an amendment was passed permitting a bank to issue notes in excess of its paid-up capital, up to 15 per cent of the amount of the unimpaired paid-up capital and the rest fund of the bank. That facility could only be made use of during the crop-moving months of the year, which were then stated to be from October 1 to January 31. This excess circulation, by the way, was subject to a tax not in excess of 5 per cent; and 5 per cent was the rate always applied against it.

In 1913 we had another development, namely the formation of the central gold reserves in Montreal. Here again, because the note issue privileges were reaching the limit, it was provided that central gold reserves should be established by the banks. Four trustees were empowered to receive from the banks desposits in Montreal of gold or dominion notes, against which the banks might issue an equal amount of their notes. You have there perhaps a groping towards one of the features which is associated with a central bank, namely, the centralization of the country's monetary gold reserves. I might also mention in passing that in 1913 the excess circulation privileges for the crop-moving period were extended for an additional two months; in other words, the crop-moving period was defined as beginning on September 1 and ending on February 28.

Now I come down to the situation as it is under the Bank Act of 1934, the latest bank act, I might perhaps summarize what the main provisions are in regard to note issue:

1. Every chartered bank is permitted to issue its own notes in denominations of $5 and multiples thereof.

2. The provisions in regard to the maximum amount of note issue are rather complicated, or, rather they were complicated as expressed in the act in 1934 because the Bank of Canada had not yet begun operations, and the act had to take account of two situations, that is, the situation before the bank began operations and the situation thereafter. It would be eight or ten months before it would actually begin operations. So it was provided that up to the day on which the Bank of Canada should commence operations, which later turned out to be March 11, 1935, a bank was allowed to issue its notes up to the amount of its paid-up capital, plus the amount of gold and dominion notes it had deposited in the central gold reserves in Montreal, and then plus its excess circulation privilege during the crop-moving period of the year. But it was provided that on and after the day on which the Bank of Canada began operations, namely March 11, 1935, that limit of issue was to be reduced. Actually, from that date on, the limit was to be not in excess of the unimpaired paid-up capital of the bank as of the date on which the Bank of Canada, commenced operations. You

[Dr. W. C. Clark.]

will also remember that, beginning on January 31, 1936, and continuing for a period of five years, the maximum limit of chartered bank note issue was to be reduced by 5 per cent a year; then for five more years commencing on January 1, 1940, there was to be a reduction at the rate of 10 per cent a year. To-day, 1939, the actual limit is 80 per cent—it was reduced on January 1 this year to 80 per cent of the unimpaired paid-up capital of the banks. By January 1, 1945, it will be reduced to 25 per cent; and parliament, according to the present act, will determine what it wishes to do from that time on.

I perhaps should say that in giving these limits I am referring to the limit of note issue in Canada. These provisions do not affect the right which the banks have to issue certain notes not in Canadian currency in British colonies and possessions.

To continue this outline of the legal provisions covering the issue of chartered bank notes:—

3. The Bank Circulation Redemption Fund is, of course, continued. The banks have to put up 5 per cent of their average note circulation, to be held by the Minister of Finance, for the sole purpose of paying a failed bank's notes.

4. The notes of banks suspending payment draw interest at 5 per cent from the date of suspension to the day redemption is announced.

5. No bank is allowed to pledge, assign or hypothecate its notes and no advance or loan on the security of the bank's own notes shall be recoverable from the bank or its assets.

6. Every bank must always receive in payment its own notes at par at any of its branches, agencies or offices, and must make such arrangements as are necessary to insure the circulation of its notes at par in every part of Canada. For this purpose it must establish agencies for the redemption and payment of its notes at such places in each province as may be fixed by the governor-in-council.

7. Banks, under the Special War Revenue Act, as you know, are required to pay a tax of 1 per cent on their average note circulation.

So much for notes. We have left the question of *bank deposits*. I do not think it is necessary for me to say very much about bank deposits. It is a subject on which one could speak for a great length of time. I think, however, that you are all famiilar with the general provisions with regard to bank deposits. The sections in the Bank Act itself which relate to this subject are sections 75, where a bank is allowed to take deposits, because it is given power to engage in a general banking business; section 92, where it is stated that the bank may allow any rate of interest whatsoever upon any money deposited with it; and then sections 95 to 97, which include provisions dealing with some minor questions in regard to deposits. As you know, in Canada you have your two classes of deposits: (1) current or demand deposits, payable on demand, transferable by cheque and (2) so-called savings deposits or notice deposits payable legally only after a certain number of days' notice has been given to the banks. In practice, as we all know, those provisions in regard to the right to receive notice have never been enforced and are not being enforced by the banks. I might just say a word about the interest paid on savings bank deposits. For a great many years up until 1933, this rate was, as you know, 3 per cent. It was reduced in May, 1933, to $2\frac{1}{2}$ per cent; it was later reduced to 2 per cent, then to $1\frac{1}{2}$ per cent, and is now $1\frac{1}{2}$ per cent, calculated on minimum quarterly balances. I think, Mr. Chairman, that is all I have to say.

The CHAIRMAN: Thank you very much, Dr. Clark. I will now call upon Mr. Towers.

Mr. GRAHAM F. TOWERS (Governor of the Bank of Canada): Mr. Chairman and gentlemen: In the letter which I received from the secretary of the committee indicating that I should be prepared to make a statement, I think the words used were "a statement on the general operations of the Bank of Canada." But I have taken the liberty of interpreting that rather liberally; and in the statement which we prepared we have included, very briefly, something in relation to the functions and the structure of the bank as well as in regard to its general operations. I think that in dealing with this particular material, I can give it to the committee more briefly and more clearly by reading it than I could by attempting to give it extemporaneously; so with your permission, I shall read this.

PART I—FUNCTIONS

In dealing with the functions of a central bank I shall borrow freely from the report of the Royal Commission on Banking and Currency in Canada, and from the preamble to the Bank of Canada Act.

The major function of a central bank is to regulate credit and currency in the best interests of the economic life of the nation. The bank's efforts to perform this function must, of course, take place within the limits imposed by law and by its capacity.

Secondly, a central bank should, so far as possible, control and protect the external value of the monetary unit of the country. This responsibility is a definite and direct one if the country in which the bank operates is on a gold or other international standard. Otherwise, the responsibility is indirect and less clearly defined.

Thirdly, the bank should be a ready source of skilled and impartial advice at the disposal of the government—automatically in the case of the dominion government, and by arrangement in the case of provincial governments.

Finally, a central bank should provide machinery for cooperation with similar institutions in other countries. Obviously, cooperation on any matter of high policy must be dictated by the views of the governments of the countries concerned, but cooperation by way of information or in the performance of normal banking services is also a useful and important function.

By and large, the central bank should use its store of experience in the service of the community, without the desire or the need to make profit a primary consideration.

PART II—STRUCTURE

Obviously one could elaborate at some length on the functions of a central bank. But I doubt whether further elaboration would serve any purpose, particularly at this stage. I believe that further detail would be simply dotting the "i's" and crossing the "t's", including, no doubt, qualifications in regard to the difficulties which a central bank may encounter in endeavouring to achieve certain objectives.

I should like to turn now to the question of the structure of this organization which is designed to perform the functions I have outlined. The structure of a bank is revealed by its balance sheet, and the steps it takes to perform its functions are revealed by changes in its balance sheet, except to the extent that it may endeavour to attain its objectives by methods of advice or persuasion.

May I commence my discussion of the bank's balance sheet by making what is apparently a very trite remark, namely, that a balance sheet always balances. By that I mean that any action we may take to increase or decrease our assets, automatically results in a similar increase or decrease in our liabilities; and our liabilities are other people's assets. It is through changes in these assets of other people that a major influence is exerted on the financial system. I shall try to develop this point when dealing with our operations.

[Mr. Graham Ford Towers.]

As shown by the bank's balance sheet at December 31, 1938—copies of which are in the hands of the committee—our assets on that date totalled some $405 millions, speaking in round figures which I shall use throughout. Of these assets, $214 millions consisted of gold and foreign exchange, $186 millions of dominion and provincial government securities, and $5 millions was represented by other items. The liabilities balancing these assets were notes in circulation, $175 millions; deposits, $222 millions; capital and rest fund, $7 millions; and about $1 million of sundry liabilities. It will be seen that notes in circulation and deposits by the chartered banks were by far the most important items on the liability side of our balance sheet. Of our notes in circulation, of the total of $175 millions, $118 millions were held by the public and $57 millions were in the tills of the chartered banks on December 31 last. In addition to these notes, the chartered banks had $201 millions on deposit with us, the total of these two items being $257 millions. This total represents the cash reserves of the banks against their liabilities in the form of deposits payable in Canadian dollars—and I use that wording, "payable in Canadian dollars" to distinguish it from deposits payable in U.S. dollars, pounds sterling or other foreign currencies which may be on the books of the chartered banks' foreign branches or even Canadian branches.

By law the chartered banks' cash reserves in the form of Bank of Canada notes and deposits with the Bank of Canada, must not be less than 5 per cent of Canadian dollar deposits. In fact, the banks try to maintain a ratio of about 10 per cent, and at December 31, 1938, when Canadian dollar deposits amounted to $2,498 millions, cash reserves of $257 millions represented a cash ratio of 10·3 per cent.

If someone were to ask me why the chartered banks try to maintain a 10 per cent cash reserve, instead of 5 per cent or 15 per cent, or some other figure, I could only reply that the working experience of many years has indicated that 10 per cent is a reasonable ratio which provides sufficient cash to cover any immediate demands, but is not so high as to constitute an unnecessary burden in the form of non-earning assets. The banking system of each country must decide from its own experience what ratio is appropriate, since conditions vary as between one country and another. I might add, however, that in Great Britain it has been the practice for many years to work to a cash ratio of about 10 per cent, the same as in this country, and up until recent years a ratio approximating 10 per cent also represented banking practice in the United States.

I have devoted some time to this question of the ratio of cash reserves to deposits, because it is of fundamental importance in the working of a banking system. If the amount of cash reserves held by the banks increases, the first effect naturally is to increase the ratio of cash to deposits. The second effect is to induce the banks to try to make use of the additional cash reserves through adding to their loans and investments, which would increase their liabilities in the form of deposits and, therefore, reduce the ratio of cash to deposits. It should be pointed out, however, that if the banks are unable to make suitable loans or to find investments which they believe it is safe to acquire, they will take no action of an expansionary character, and in such circumstances would be forced to allow the cash ratio to remain at a higher level.

Looking at the other side of the picture, if a reduction takes place in the amount of cash reserves held by the banks, the first effect is to reduce the ratio of cash to deposits. If the cash ratio is then too low, the banks will correct the situation by selling securities or calling loans, until the reduced volume of deposits bears an appropriate relation to the reduced amount of cash reserves.

PART III—OPERATIONS

I think that the description I have given of the banking machinery may be more readily understood if I am able to give a picture of the machinery in operation. I shall attempt to do this by reviewing the Bank of Canada's

operations and their effects on the banking system since March 31, 1935. We actually commenced our operations on March 11 of that year, but I took the end of the month because in doing so I can then relate our figures to those of the chartered banks which are available to us only at the end of each month. I should point out that since that date, March, 1935, our operations have been on the side of expansion, that is, they will reveal only one type of policy, and will not indicate the effect of other policies which a central bank may find it necessary to adopt under other conditions.

I am commencing my remarks concerning our operations by referring to our active note circulation—that is, the notes of the Bank of Canada which are in the hands of the public—before turning to the more important subject of the chartered banks' cash reserves. On March 31, 1935, the active Bank of Canada note circulation (including dominion government notes for which we had assumed the liability) was $45 millions. At December 31, 1938, the active circulation was $118 millions, an increase of $73 millions. If the chartered banks had been forced—it is the chartered banks, of course, to whom the public go when they require additional notes—to supply this additional $73 millions of notes to the public by drawing to that extent on the cash reserves which they held at March 31, 1935, their cash reserves would have been reduced to $127 millions, which amount would have provided a 10 per cent cash ratio against only $1,270 millions deposits as compared with the $2,498 millions which were actually in existence at December 31 last. I need not elaborate on the disruption which would have been caused by such a drastic curtailment in deposits, nor on the effects on markets and the public of the sales of securities and reduction of loans which would have had to take place. It is sufficient to say that we took steps to render any such move unnecessary by adding to our assets in the form of gold, foreign exchange and securities. I should point out at this stage that when the Bank of Canada makes such purchases of gold or foreign exchange or securities or assets of any kind, it makes payment by giving the seller a cheque on the Bank of Canada, a cheque on ourselves. The seller will deposit the cheque in his own bank and that bank in turn will deposit the cheque in its account with us. The credit balance in that bank's account with us forms part of the bank's cash reserves so that the increase in this balance arising from the deposit of a cheque issued by us results in an increase in the chartered bank's cash reserves.

Since March 31, 1935, the total addition to the Bank of Canada's assets in the form of gold, exchange and securities, has been $134 millions. The initial effect of these transactions was to add an equal amount (not all at once, naturally, but over a period of years) to the chartered banks' cash reserves, of which $73 millions was taken out of the banks again in the form of additions to the amount of our notes in the hands of the public, and $4 millions deducted as a net result of sundry adjustments, leaving $57 millions as the net addition to the chartered banks' cash reserves.

I should like to turn now to a consideration of the changes in the chartered banks' balance sheets, which accompanied the increase in cash reserves to which I have referred.

At March 31, 1935, the chartered banks' cash reserves were $200 millions: their Canadian deposits $2,034 millions, and the cash ratio consequently 9·8 per cent. On December 31, 1938, cash reserves were $257 millions; Canadian deposits $2,498 millions, and the cash ratio 10·3 per cent.

During this period, therefore, Canadian deposits have increased by $464 millions, of which about $213 millions has been in public time or savings deposits, and $251 millions in public demand and other deposit classifications. By public, I mean the "general public." The effect of this expansion therefore has been to give Canadian depositors some $464 millions more money available for whatever purpose they care to use it, than they had four years ago.

[Mr. Graham Ford Towers.]

In these comparisons I am taking March, 1935, as the starting point because that is as far back as our operations extend. I should point out that expansion commenced before we opened our doors; that is to a major extent between June of 1934 and March of 1935, and it arose through the expansion in the fiduciary note issue of the dominion government to which the Deputy Minister of Finance referred a little earlier this morning. Therefore, if one took the figures from June, 1934, to December 31, 1938, the expansion shown would be greater than the figures I have used.

The expansion of Canadian deposits was a result of the inducement given to the chartered banks, through the addition to their cash reserves, to seek new loans and investments. The banks would have preferred to increase loans rather than investments, but in order for them to make loans there must be responsible borrowers who are willing to use the chartered banks' facilities. In fact, loan repayments exceeded new loans during the period under discussion, when total Canadian loans declined about $40 millions, chiefly because of a reduction in loans on securities, loans in the call loan category. The chartered banks, therefore, had to turn to investments in securities, which increased $493 millions between March 31, 1935, and December 31, 1938. That was their avenue of expansion.

The ratio of cash reserves to deposits was but slightly higher at December 31, 1938, than on March 31, 1935, but in the interval cash reserves increased $57 millions, Canadian deposits expanded $464 millions, and loans and investments showed a net rise of $453 millions.

SUMMARY

I now come to the end of the brief outline in which I have attempted to describe first of all the functions, then the structure and finally the operations of the Bank of Canada and the effects of these operations upon the banking system in Canada, to the extent that these effects are disclosed by changes in the system's cash position and in its Canadian loans, investments and deposits. I have not attempted to deal with the broader subject of the relationship of these changes to the economic system, on the assumption that the aspects of the situation in which the committee is interested will be discussed at a later stage. To quite an extent I am afraid I have had to employ figures as a method of description, but I felt that it was necessary to do so at this stage, because such figures constitute the foundation on which any discussion of Canada's banking system must be based.

The CHAIRMAN: Thank you, Mr. Towers. Gentlemen, is it your desire to discuss the matters that we have heard this morning now, or shall we adjourn until the report is printed?

Mr. LANDERYOU: Adjourn until the report is printed.

The CHAIRMAN: You will leave it to the subcommittee to decide such agenda as should be published with the reports that we have heard this morning?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: The committee stands adjourned.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 2

FRIDAY, MARCH 24, 1939

WITNESSES:

Dr. W. C. Clark, Deputy Minister of Finance

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

ORDER OF REFERENCE

TUESDAY, March 21, 1939.

Ordered,—That the name of Mr. Taylor (*Nanaimo*) be substituted for that of Mr. Fournier (*Hull*) on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MINUTES OF PROCEEDINGS

FRIDAY, March 24, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock, a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Bercovitch, Coldwell, Deachman, Donnelly, Dubuc, Hill, Howard, Hushion, Ilsley, Jaques, Kinley, Kirk, Landeryou, Leduc, Macdonald (*Brantford City*), McGeer, Manion, Mayhew, Moore, Plaxton, Quelch, Ross (*St. Paul's*), Stevens, Thorson, Tucker, Taylor, Vien.

In attendance: Dr. W. C. Clark, Deputy Minister of Finance, and Mr. Graham F. Towers, Governor of the Bank of Canada.

Copies of the "Annual Report of the Bank of Canada to the Minister of Finance and Statement of Accounts," dated February 6, 1939, were made available to members of the Committee who had not received same at the previous sitting.

The Committee resumed consideration of the Annual Report of the Bank of Canada, Dr. Clark and Mr. Towers being recalled and questioned.

Ordered,—That the "Glossary of Monetary Terms," submitted by Dr. Clark on March 16, be printed as an appendix to this day's evidence.

At 1 o'clock the Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

OTTAWA, March 24, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, as to procedure I would suggest that Dr. Clark, who made the first statement the other day, be examined. Those who desire to ask Dr. Clark questions should be allowed, it seems to me, to finish their questions without interruption. Having finished, it seems to me that they should give an opportunity to other members to ask questions; in other words, having had the floor once, if they want a second opportunity, they should wait until every other member has finished with what he desires to say.

Mr. TUCKER: Mr. Chairman, I do not altogether agree with that policy. I think the idea should be to all work together in a reasonable manner. There is no doubt that one member may not exhaust entirely what he wants to ask, and a question by someone else may suggest a line of thought which some other member of the committee might wish to follow up. I do not think there should be any attempt to put the members of this committee in a straight jacket. I think we should proceed in a way that meets with the approval of the committee as a whole and not attempt to simply say that one person at the outset is going to have to go ahead, take the floor and keep it and when he sits down he is finished. I do not think that is the proper attitude to take.

Mr. COLDWELL: Mr. Chairman, I do not agree with Mr. Tucker. Some of us will have some questions to ask, and I think that any one who has a question arising out of those questions should make a note of it and ask it subsequently. I think the suggestion of the chairman would facilitate the work of the committee. Last year we found from time to time that somebody who wished to ask a number of questions was interrupted and unable to finish his questions. I think the suggestion is rather good.

Mr. LANDERYOU: All I would say is if one were to get up and direct all the questions he may have in mind he would touch on a number of different matters. If we could confine the questions possibly to a group of subjects under discussion, it might facilitate matters.

Mr. CHAIRMAN: Mr. Stevens, what views have you?

Mr. STEVENS: The task of a chairman is, of course, a very difficult one in a parliamentary committee. I think we should make every effort to make that task as easy as possible. Obviously, the practice that sometimes grows up in a committee is one of loose methods of questioning, which militate, in the first place, against the progress made, and, secondly, against the clarity of the record —the record becomes merely a hotch-potch.

I agree with the chairman, and I am quite sure that the chairman had not in mind curbing questions. I do not think Mr. Tucker need fear not having a proper opportunity. I agree with the chairman that we should proceed in as orderly a fashion as possible, and I certainly stand by the old practice that when a member of the committee is asking a question he should rise in his place and ask his question as briefly, concisely and directly as possible. There is a habit that many of us fall into of making speeches rather than asking questions. That militates against the record, it makes the record very difficult to go through. I think we can make this examination really a useful thing if we

follow as far as we possibly can the chairman's suggestion. I should certainly be the last one to support anything in the nature of curbing a member's privilege of asking questions. I think the chairman's suggestion is a good one, if we can possibly adhere to it.

Mr. LANDERYOU: Should we confine ourselves to the glossary that was presented to the committee by Dr. Clark, or should we question him in regard to coins, bank-notes, deposits and other matters which he raised in his discussions? I should like to hear from the chairman on that point.

The CHAIRMAN: I should think that would depend on the members. If you wish to examine on the glossary, that is your privilege.

Mr. LANDERYOU: Shall we confine ourselves to the glossary in the beginning?

The CHAIRMAN: Suppose we discuss the glossary first and then proceed later to the second matter. Have you some questions in regard to the glossary, Mr. Landeryou?

Mr. LANDERYOU: I have a question or two.

The CHAIRMAN: Then you will confine yourself to the glossary?

Mr. LANDERYOU: Yes, I shall confine myself to the glossary. I think we should go over all those definitions of terms, just to present our views, also to get to understand more fully what is meant in the definitions.

The definition of "money" is:—

> Money, in the broad sense (now sanctified by popular usage), is any medium of exchange which is generally acceptable in day-to-day business transactions and the settlement of debts and contracts.

I should like to direct a question to Mr. Clark in connection with that. Would he have any hesitation in saying "any medium of exchange, no matter what it is"?

Dr. CLARK: Mr. Chairman, I should think that would be covered by "any" medium of exchange, as long as it is generally acceptable. I think that is meant to be covered by the use of the word "any" before the word "medium."

Mr. LANDERYOU: To be generally acceptable, would you agree that we could dispense with the use of gold, as we have it at the present time?

Dr. CLARK: I am not quite sure that I understand the full implications of that question. If you mean, can we get along without gold in day-to-day circulation, that is perfectly obvious; we have done so. If you mean the broader and far-reaching question, is it necessary to have a sound money system, should it be based on gold, I think you have indications of the answer to that in the discussion of the monetary standards question in a later section of this glossary, for instance, where it refers to a paper standard,—either an ordinary inconvertible paper standard or a managed paper standard, where they do get along without gold. As long as you have the factors present which assure that the money will be generally accepted by the public, then the thing will work.

Mr. LANDERYOU: It just depends in the final analysis upon the confidence people have in the circulating medium of exchange?

Dr. CLARK: Yes, that is the essence of it, because it has got to be generally acceptable to the people.

The CHAIRMAN: Is it your idea that when Mr. Landeryou is finished with his questions on money we should allow others to examine on that specific subject? Have you finished with your questions, Mr. Landeryou?

Mr. LANDERYOU: There is just one other part.

Mr. COLDWELL: May I ask Dr. Clark a question? How would you define "generally acceptable"—within a country, or over a wider area?

Dr. CLARK: We are thinking of "within a country."

[Dr. W. C. Clark.]

Mr. LANDERYOU: The statement is often used that our money should ring true on every counter in the world; but to have sound money it would not necessarily have to ring true in every country as long as it was acceptable within the confines of your own country. Would you agree that that would be all right?

Dr. CLARK: Yes. I think I could say yes, to that question from the domestic point of view. You may, however, get difficult questions of foreign exchange and relationship between your currency and the currency of other countries which may have adverse effects on your foreign trade. But that type of discussion could probably be left until a later stage because it involves quite an elaborate background which we have not as yet covered.

I think for our purposes at the moment, the main thing is that your money, to be money, should be a medium of exchange that is generally acceptable within the community. From the point of view of a standard of value, or from the point of view of foreign exchange transactions, you may have difficulty if you have not got money that is a satisfactory standard of value.

Mr. COLDWELL: You used the expression "within the community;" may I just clarify that? Within the community or within the nation?

Dr. CLARK: Within the nation.

Mr. DEACHMAN: Is it not possible that money might be acceptable but not satisfactory? You might have to accept a certain form of money due to certain conditions, but yet that form might not be satisfactory. The question previously raised involves also the matter of foreign exchange, and money might be acceptable domestically but subject to violent fluctuation. I suggest also that it is possible the wide variations we have to-day in such currencies as the pound are not satisfactory, and that we should try to reach a greater degree of stability.

Dr. CLARK: That is what I meant to imply by saying that these questions raised considerations in regard to what would be an acceptable standard of value. As Mr. Deachman points out, if you have a type of money as your standard of value which is subject to fluctuations, frequent, uncertain or drastic fluctuations in value, then you get into difficulties with your foreign exchange transactions; and you get a factor which is adverse to the normal and smooth functioning of your processes of international trade.

Mr. LANDERYOU: Is it not possible, if you had a circulating medium of exchange that was not acceptable on the markets of the world for a number of reasons, that within your own country the value could be stabilized? We are now discussing the effect of exchange rates upon our currency. That is due to dealings between countries, and your trade balance is what really affects the internal exchange. What I have in mind is that in Germany they are using a particular type of money with which to handle their export and import business. What do they call their marks?

Dr. CLARK: Aski marks.

Dr. LANDERYOU: They keep accumulating in the country with which Germany is dealing; they have not much value in that country, but in Germany they are acceptable at par.

Dr. CLARK: Not the aski marks, Mr. Landeryou. They are used for certain kinds of transactions by foreigners, for instance by tourists, or by traders—exporters and importers.

Mr. LANDERYOU: The point I am trying to make is this: that your currency does not necessarily have to fluctuate in your own country in relation to goods and services just because there is a fluctuation in its value in some foreign country. Would that necessarily have to follow?

Dr. CLARK: No; it would not necessarily have to follow.

Mr. QUELCH: Would money that is tied to a price index have a more stable value than money that is tied to gold?

Dr. CLARK: It might be more stable but it is very difficult to say. It depends, for one thing, on the index of prices that you tie to, the character of the index. It is conceivable that such an index might be, under certain kinds of internal monetary set-ups, a very highly and rapidly fluctuating criterion. That is one side of the picture. On the other side, you would have to consider the possible fluctuations of a currency tied to gold. The difficulty with gold is that over a rather long period of time it may tend to change in value. It has not perhaps great stability over a long period of time, but in the short run situations it has relatively great stability. I think it is exceedingly difficult to answer that question. It all depends, in the first place, on the index number of prices that you choose to tie to and the kind of currency you have in your own country, and on the other hand, the factors that are affecting the supply of and demand for gold. I do not think anybody could give you a precise answer to that question. You would have to be able to foresee what is going to happen to gold for the next generation or two. I do not pretend to be able to do that. It also depends on the index number of prices that you use, and that again depends on the kind of standard that you have internally for your money, the standard of value and how it is managed. It is conceivable that under certain conditions it might be a highly fluctuating standard.

Mr. DEACHMAN: What do you mean by "tying currency to an index number"? Does it mean that the price level would remain the same; that the price level of index in relation to currency would remain the same over a period of years?

Dr. CLARK: I take it that that is the implication of the question. You attempt at least—whether you succeed or not is another question—to maintain the value of your currency at a reasonably stable level in terms of some index—the wholesale price level, for instance.

Mr. VIEN: Within a country?

Dr. CLARK: Within a country?

Mr. DEACHMAN: Does that mean if a pair of boots is $5 today, the same boots would remain at $5 for a period of years?

Dr. CLARK: Oh, no. You would have an index number of prices, the index number being based on a wide range of commodities. The prices of individual commodities might vary, some might go up and some might go down, but your index number would be an attempt to measure the *average* level of prices or value of those commodities in terms of money.

Mr. DEACHMAN: Would I be right in suggesting that that would offer no solution to the present problem which has confronted Canada since 1930, of a very low price on agricultural products and a relatively high price on manufactured products? The depression in farm products might be matched by the upward trend in manufactured products, or, on the other hand, the price of imported products might rise and the price of exported products might fall?

Dr. CLARK: Quite so.

Mr. DEACHMAN: So the levelling out in that sense would be of no great value to the nation as a whole.

Mr. TUCKER: When you have money as it has been during the past ten years shifting in value with deflationary movements, such industries as the primary industries that cannot control to the same extent their amount of production will be hit much harder than the manufacturing industries which can control their output. Therefore, deflationary movements injure primary industries much more than they injure secondary industries; and a measure of reflationary action towards restoring the index level to what it was in 1926 would almost inevitably raise the prices of primary products as compared with secondary products. That, I think, is something on which, as far as I am concerned, I should like a considered opinion, not only from the deputy minister of

finance but from the governor of the Bank of Canada. I do not think it should be answered without due consideration having been given to it, because it goes to the root of our present difficulty and is something on which I should like the considered opinion of the experts we have before us.

The imperial conference which was held here in Ottawa recommended a restoration of the level of prices as a measure of justice to our primary producers in an endeavour to lift the burden of debt, fixed charges and so on. It is my impression that we have not gone nearly far enough in the direction of following the recommendations of the imperial conference. I for one should like to have a considered statement, not in the form of an answer such as we might ask for here, but a considered statement on how far you have progressed in carrying out that policy, because I do not think you have progressed nearly far enough. You have left too heavy a burden of fixed charges upon the primary industries and they are breaking down under it. What I am particularly interested in is how far you have gone and why you have not gone further. That is one of the fundamental questions that we are considering. I should like to know why you have not gone further to raise the general level of prices, and I think the country would be interested in having a statement of the considerations that have moved you in going as far as you have gone and the considerations that have restrained you from going further.

Mr. Deachman: There is one question I should like to ask which is directly related to that. I should like to know from both the governor of the bank and from Dr. Clark the relative importance of monetary and non-monetary factors in the determination of the price factors? Are they due entirely to monetary factors, or are there certain non-monetary factors which may determine the price one way or another, and what is the relative importance?

Dr. Clark: I think the major portion of that question should be directed to Mr. Towers. I wish to make just one minor point. I think this question raises a question related to the international market which is perhaps even more vital in the case of primary products than the domestic market.

It is true, I think, that in the deflation which took place after 1929, the primary commodities and the primary producing countries were hurt more severely than the other commodities and other countries. But with us, and with most countries producing raw materials, our price level, in which we are particularly interested, is an international price level. Unfortunately, we have not got too much control, or very little control, over that international price level. What was attempted in the imperial conference in 1932, to which Mr. Tucker referred, was to get the international price level up. The dominions that were interested in this question were anxious, by some co-operative scheme involving several countries—and the United Kingdom would be of course the most important in any such program—to promote as far as could be done by monetary action a rise in the world's level of prices,—the sterling level of prices, if you want to limit it a little bit more. And that just recalls to my mind Mr. Deachman's point which is of course thoroughly sound—that there are monetary and non-monetary factors involved. Under certain situations, the monetary factors may be more important than the non-monetary factors. Under other situations, perhaps even more frequent situations, the non-monetary factors may be the more important.

Mr. Tucker: I understand that each nation attending that conference agreed to raise its own internal price level by monetary action, and the point I am getting at is this: That Australia has gone, I am satisfied, much further along that line than we have gone. Great Britain has gone much further along that line than we have gone. At the time that conference was held our money was at quite a premium, as compared with British money. To-day they are on the same basis. When Great Britain and Australia and these other countries by monetary action raised their general price level, why do we sort of stand

still when it would have been of great advantage to our primary producers to have got our money pretty well at the same discount, compared with British money. Australia has kept her money comparable with the money of Great Britain. We have the same difficulties in regard to debts; we have the same primary difficulties, and the same with freight-rate structures, and so on. We have also the same difficulties with primary producers accommodating themselves to the fixed charges hanging over them, and so on.

My contention is and has been that our monetary action has been much more conservative than even the monetary action of England, and that it is putting a tremendous burden upon our primary producers. What I am interested in knowing is how you can justify your comparative inaction along that line as compared with the action of England, Australia, and so on?

Mr. Towers: I believe, Mr. Chairman, that Mr. Tucker suggested that he would really prefer a carefully considered reply to that question. The second question is really perhaps an enlargement of the first. Then, there is Mr. Deachman's question. I believe it would be better and make for greater clarity if I endeavoured to set a few notes down in black and white and make the answer then, because it covers a very wide field.

Mr. Tucker: I think so.

Mr. Landeryou: In regard to that question, I just have this to say: this fluctuation of money or using money as the yardstick to establish the relative value of goods and services has, to my mind, not been clarified. We have in Canada a great disequilibrium in the price structure as between the primary products and manufactured articles. Many have suggested that we raise the price level of the primary products in order to allow them to come in closer relation to the price level of secondary industries.

The point in my mind is this: is it necessary to raise the prices; if so, why? Or, would it not be better to lower all prices? For instance, if a man is receiving, we will say, a dollar a day, and can buy a suit of clothes for ten dollars, he is just as well off as if he is getting $10 a day and has to pay $100 for a suit of clothes. To my mind money has fluctuated entirely too much in the last few years in relation to the goods and services produced in this country. It reminds me of the story I heard of the Indian traders. They traded their guns for skins. The Indian would come with his furs and pile his skins up against a gun; and after he had piled up sufficient skins to reach the top of the gun standing on its butt, he would receive the gun. The gun was the means whereby the Indian lived. The traders appreciated that fact, and put great big long barrels on their guns, and they skinned the Indian out of his skins with these long-barrelled guns. We are doing relatively the same thing. We take the dollar bill and we say to the farmer: Here, you can have this dollar bill for your bushel of wheat this year. The next year when the farmer comes, he finds a long-barrelled dollar bill, and he has to put up two or three bushels of wheat in order to secure that dollar. The farmer is required to bring sixty pounds to the bushel of wheat, and it has to be No. 1, No. 2, or No. 3; it has to be graded. But he does not receive in exchange a form of money the same from year to year. How are we going to get rid of this great disequilibrium in the price structure? As I say, the only reason we desire to raise the price level of agricultural products is to allow the farmer an opportunity to meet his overhead which has been accumulating over the years because of the tremendous increase in municipal, provincial and federal debt and taxation, as well as his own private obligations that he has incurred during the years.

Now, I should like to find out from those who are here to-day first, just what steps could be taken in order to do away with that great fluctuation? I know that in some countries of the world, New Zealand and other places, steps have been taken to stabilize the price of primary products. I should like to know what action should be taken by this government to stabilize these prices?

[Mr. Graham Ford Towers.]

Mr. MACDONALD: When the statement is being prepared by the governor of the Bank of Canada, will he discuss how the price level of primary products can be raised without affecting or raising the price level of other products? Do they not go hand in hand? There might be a small difference; the one might fluctuate a little more than the other; primary products may fluctuate in price more than the so-called secondary products, but can we dissociate one from the other?

Mr. TOWERS: Mr. Chairman, dealing first with Mr. Landeryou's question and then trying to answer it, I will at times get somewhat into the field that the earlier question entered; but I should like to try to answer this one without cancelling the idea of perhaps a longer and more considered statement in respect to the earlier questions. It seems to me that there are two aspects to this last question: one relates to the general price level, the average of all prices, and the other relates to the price level of certain products. So far as the general price level is concerned, I would agree that it does not matter whether that level is high or low; it does not matter what the level is so long as everything else in the country has been adjusted accordingly; in other words, so long as a wage of one dollar is just as good as a wage of two dollars has been at some time in the past; but in the modern community the adjustments are so terrific in character, so widespread, they take so long to take place and they cause so much disorganization and disruption while they are taking place that I believe it has been found that the rigidities are such that it is practically impossible and certainly socially undesirable to attempt to accept, if you can avoid it, very wide changes in the price level.

These wide changes did take place subsequent to 1929, and we all know the disorganization and the suffering that they produced. It was with that thought in mind that the conference here, and later the world conference in London, I believe, agreed on the desirability of trying to restore the price level of 1926. They took 1926 as the year in which the price level was at a figure where it had been for some years. They took it from the air, so to speak. Whether that particular level is still desirable, I do not know; but it was a level to which industry believed our wage earners and so forth had become accustomed. Ever since then there have been rising price levels to try and remedy some of the disruption caused by the great change which had taken place after 1929. I believe that so far as monetary action is concerned, it has gone just about as far as monetary action can go in most countries with that object in view. Prices have increased since 1932, although they are by no means on the average level of 1926. During the course of these years when monetary action has been directed in the sense that I mentioned, many other things have occurred which have proved far more disorganizing for business, disorganizing to an extent that was absolutely impossible for monetary action to offset.

Dealing for a moment with the question of specific commodities, I would say that no monetary action is likely to improve the position of certain products in relation to other products; that even if you have generally rising price levels on the average, you might easily have in relation to a product of a group of products, a falling price level. If these products are being produced in a quantity greater than the market warrants it will simply mean the owners of other products, having these depressed products placed on the market in considerable volume, will say in effect: we won't exchange so much of our commodity for a bushel of wheat; the quantity of wheat being offered is tremendous, we should get two bushels of wheat for the same amount of our product that we formerly gave for one; and no monetary action will cure that.

Mr. COLDWELL: Mr. Chairman, I want to go back to the suggested statement, because I think that statement should cover a fairly wide field. When we were speaking of stability a short time ago I wondered if the officials drawing that statement would pay some attention to what has transpired in Sweden, where they did adopt a price index, I believe, as early as 1930 or 1931—I have

forgotten just which year. Their experience, I believe, is rather an interesting one. I agree with the point of view that monetary action is not the only action that has to be taken in order to achieve stability of prices. I noticed that the governor of the Bank of Canada stated he thought that in many countries monetary action had gone as far as it was possible to go. I was wondering what other suggestions he would have to offer to go beyond the monetary action, because I am in thorough agreement with that point of view. In our own country we have been talking of the severe fluctuations. I happen to have brought down with me a wholesale index of 1920; and based on the 1926 figure, an index of 100, we find this: in 1920 the wholesale index was 155·9; in 1929 it had dropped to 95·6; in 1937 it was 84·6; in December, 1938, it was 73·3, and in January, 1939, it was the same figure, 73·3.

With regard to the primary producer, I am also aware of the fact that the fluctuation in primary produce has been much greater than the index would indicate. In my opinion the question of the price of primary products is one of the most important that we have to face. I might just point this out, that in my opinion again—and if there is any other suggestion I should like to hear it—the fact that industrial organization has been able to stabilize to a very large extent their price level is due to the fact that they exercise wide control all across the country. In other words, we are faced with monopolies.

Just before I close what I was going to say on this point, I should like also to know, when we are discussing this matter, just what steps have been taken and what experiments have been tried in other countries. I mentioned Sweden. Australia and New Zealand took the opposite course exactly to ours a few years ago in relation to sterling, depreciating their currency in terms of sterling. May I just also say in passing that, watching the fluctuation of our dollar in the past year, I have noticed the same sort of tendency. I am now speaking in round figures. A few years ago our dollar was worth one-fifth of an English pound, or putting it another way, the English pound was approximately worth five dollars in our currency. It is no worth about $4.70. That, of course, is not a very severe drop, but we may find that a further drop will occur.

Then, I should like to know how they have vontrolled their price levels say, in Germany, and how they have controlled them in Russia and how they have attempted to meet this situation in the United States, all of which countries are on different plans, and whether any of these offer any suggestions, not as a whole, but in part, to us. I believe we should get a clear view of just what can be done. I am of the opinion that while monetary control is essential yet it is not the only factor, and I suggest while we are considering this problem, we should not run off at a tangent, and think that there is a single line that we can follow. I believe there are a number of factors to take into consideration.

Hon. Mr. STEVENS: I should like to ask Mr. Towers to consider in his statement a very practical question. I am not reflecting upon the theory that we have been discussing today but I believe we can bring one phase of it to a very practical issue.

For the purpose of clarifying my question, may I just intimate or set forth my agreement with Mr. Landeryou on the disparity between primary products prices and secondary industry prices. Having that in mind, and secondly, having this in mind also, that the sterling area is the largest for our primary products in our export trade, I should like to ask two questions. In asking these questions I am not casting any reflection on any one but I am rather thinking of the future course. My first question is this: did Canada act wisely on the occasion of the departure from the gold standard of Great Britain in 1931 in seeking to maintain the stabilization of the Canadian dollar with the American dollar, rather than allowing the Canadian dollar to follow sterling? That is the first question. Did we act wisely at that time in the light of the effect upon our primary products prices to the producer in Canada?

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My second question is simply the opposite, shall I say, of the first. The question is this: would it not be the wise course for Canada to attempt in its stabilization policy to keep the Canadian dollar closer to sterling, rather than maintaining it at the American dollar level? I want my question to be brief, and I am not going to argue or elaborate that. I should like Mr. Towers, if he would, to keep that in mind, the question of the practical policy for Canada in its stabilization efforts in its general monetary policy.

Mr. DONNELLY: Following up Mr. Stevens' suggestion I should like Mr. Towers in framing his answers to let us know if it would not be well for us in the same way to keep our dollar on a parity or somewhere near a parity with the Australian pound or the Argentine monetary unit, for example. These are the two countries with whom our farmers have to compete as agriculturists. Our wheat, cattle, butter, cheese and everything of that kind are in competition with the products of these two countries I have mentioned. Would it not be as well for us as an agricultural country to keep our money somewhere on a parity with their currency rather than the English pound or the American dollar?

Mr. LANDERYOU: It has been claimed in the evidence that I have read which was placed before the Rowell Royal Commission by the province of Manitoba particularly and Alberta, that the fact that we have kept our monetary policy on a par with the United States, whether deliberately or not, has cost the farmers of western Canada in the last three years somewhere in the neighbourhood of $100,000,000 a year. Is that correct?

Mr. TOWERS: I wonder if I may try to reply to the questions in sequence? Mr. Chairman, speaking first to Mr. Stevens' question, and thinking of the preparation of a later answer, I understand the question was, first of all, whether Canada acted wisely in keeping her dollar at a certain level in these earlier years, 1931 and 1932, or whether she would have been better advised not to have made that attempt, but rather to have done something else. To the best of my knowledge and belief, Canada never took any action whatever in the exchange market to produce any given level for the Canadian dollar. In other words, during that time and up to and including the present day, the Canadian dollar has found its own level in the market. No one that I know of, privately, publicly, or anyone else, has tried to peg it at a certain level or to arrive at a certain level. Therefore the question could be, of course: rather than have allowed the Canadian dollar to find its own level in the market at that time, 1931 to 1932, would it have been better to have taken deliberate steps to bring it to the level of sterling?

Mr. TUCKER: Did we not export gold and establish by loans and borrowings with New York the level of our money with that of the United States? I believe there were attempts made along that line.

Mr. TOWERS: My strong impression is that the borrowing which took place in the United States at that time—I speak only as a spectator, because I did not know what was in the mind of the government of the day— was made because of necessity; that a considerable quantity of money was required at that time and it was thought that the domestic market could not supply it, and that was the reason for the loan. I believe that consideration of any influence that it might have on exchange was, so far as I know, completely absent. Many of the things that happen from time to time might have an effect; almost anything in the market may have an effect on exchange; but while I make the qualification that I do not speak from first-hand knowledge, nevertheless I feel absolutely certain that no one during these years was thinking of the exact repercussion of their actions on exchange.

Mr. TUCKER: The whole tariff policy was based, I believe, on the idea of cutting down imports from there and re-establishing the level of our dollar. That was the express purpose of the prime minister at that time.

Mr. TOWERS: On that subject, of course, it would be impossible for me to claim any knowledge.

Mr. LANDERYOU: Had we taken action to have our money placed on a par with New Zealand and Australia would not the effect have been to raise the prices received for agricultural products in western Canada?

Mr. TOWERS: Yes, I believe that it would.

Mr. LANDERYOU: Why was action not taken? I will put it this way: since action was not taken did not a particular section or class of producers in Canada gain by having our money on a par with that of the United States? I am not suggesting now that it was a deliberate policy, Mr. Towers, but since that was the case did not a particular section of society gain by it?

Mr. TOWERS: I would say that while I answered in the affirmative as to whether the reduction in the exchange value of our money to the level of Australia and New Zealand would have raised the prices of the products that you mentioned, that, of course, is only the commencement of the story. It would also have raised our other prices, not overnight, but over a period of time. It might be the case that even the position af agriculture would not have been improved with respect to its price level in relation to the prices of other things. It might have been improved in relation to debt. Then one would have to enquire whether the improvement of the agricultural price level in relation to debt, as in the end it presumably would not have improved in relation to other things, whether that then would have justified the action which you mentioned. To give an answer to that, I suppose, one would have to examine the effect on all other sections of the country. Would it have been beneficial or harmful and created injustice elsewhere? If so, how great would have been these injustices? Should they have been incurred because of the advantage to agriculture in relation to debt? That is a very difficult subject, I should say. The principle I have in mind is that while any action of that kind may benefit a certain section, the benefit is achieved at the expense of other sections and therefore, I suppose, the government must try to adapt its policy to the greatest good of the greaest number.

Mr. LANDERYOU: Which sections benefit by the exchange being kept on a par with the United States?

Mr. TOWERS: The change in the level of exchange, of course, is almost entirely an internal transfer. You do not affect the foreigner in the ordinary course of events by that change in level. Temporarily perhaps the foreigner may be affected because you sell him your products more cheaply, sometimes called exchange dumping. In that case the country with the depreciated exchange is making, shall I say, a present to the foreigner. The foreigner sometimes does not like it because it disrupts the market, but if the foreigner considers the consumer he may look on it as something he may have to accept. Subject to that possibility, the country with the depreciated exchange may be giving more generous treatment to the foreigner. The thing is an internal transfer.

Mr. HILL: Don't you believe this is true: due to the fact this is a large farming country we would have benefited a great deal more by allowing our exchange to fall with the British pound than by maintaining it on a par with the American dollar? It is a fact that when England went off the gold standard in 1931 we lost millions of dollars. I know one company that lost half its business in the export market and when Roosevelt lowered the gold content of the American dollar, two million dollars worth of exports came back within the month. That was a primary industry. Is it not true that the primary industries suffered by this government not lowering its dollar at the same time as the English pound fell, as did Australia, New Zealand and South Africa, Norway, Sweden and Denmark, which are primary producing countries? They

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dropped their currency overnight, the same as England did; but we maintained ours with the American dollar. These countries benefited. They were the countries that took away Canada's exports. I do not believe that can be denied. There is no denying the fact the people who did benefit were the financial institutions and the financial companies who had securities in the United States and had to pay the interest on these securities in American funds. They benefited, but the benefit to these industries was very much less than the loss to Canada as a whole. I am of the opinion, and I should like to have your opinion so far as you can go, that those very companies would in the long run, if they had been far-sighed enough, have benefited very much more with the prosperity of the farm industry of Canada than they gained by saving a little on interest.

Mr. Towers: Might I mention, first of all, that Australia and New Zealand, of course, had fallen below the level of the British pound before England left the gold standard; and as they were pegged to the British pound they naturally went down with it in relation to other countries.

The action of Australia and New Zealand was involuntary. They had got into very serious trouble; they lacked exchange prior to that time and had built up a very difficult internal situation which pressed on them to the extent that their exchange fell.

Secondly, to the question as to whether our primary industries would have been better off had we followed the British pound at that time in September, 1931, I find it very difficult to give an answer. It is necessarily a question of opinion. It becomes still more a question of opinion if you change the question to be: Would the country as a whole have been better off? Had that depression of the British pound been permanent, I think I could answer yes; that we would have been better nearer the pound, at least, than we were. Whether the benefit which would have been derived during the fifteen months that that situation persisted—whether that benefit would have been worth the effort, I cannot tell and no one can tell now, I suppose.

Mr. Hill: In your judgment, do you not think that the government and the financial institutions of Canada are just a little over-valuing the importance of maintaining our dollar at a high standard in international finance? After all, Canada is a very small country.

Mr. Towers: Whatever views may have been expressed on that, I would still say that no action was taken, and that the dollar has always found its own level.

Mr. Hill: I cannot agree with you.

Hon. Mr. Stevens: Would you limit that, Mr. Towers, to saying, "no official action was taken"; that is, no declared objective was made?

Mr. Towers: I would even go so far as to say that no concealed action was taken.

Hon. Mr. Stevens: I do not like the word "concealed."

Mr. Towers: Perhaps I used that wrongly.

Mr. Vien: Was there any concerted action?

Mr. Towers: No action of any kind except perhaps the repercussions of other actions which I personally would have thought were not taken with an eye to establishing any given value for the dollar.

Mr. Vien: It might be interesting to have an answer to that question, not inasmuch as past events can be cured, but inasmuch as we might determine a sound policy for the future.

Mr. Howard: Mr. Towers, there is a great deal in what Mr. Hill said a minute ago as to the effect that would have been created had we depreciated our money as did New Zealand, which you were right in saying was by—

The Chairman: Duress.

Mr. HOWARD: Well, it was not a direct method, but it caused their money to increase. They took action to stabilize it and maintain it at twenty-five cents below the British pound. Now, had we done the same thing, there is not any doubt that it would have increased our export business and possibly gradually increased the price of agricultural products. I think that is agreed, but I cannot see any benefit unless we were alone in the field with Australia and New Zealand. What would have happened is that the next country would do the same, and the next country, and so on, and where would we get off in the final result? If you got all the countries of the world to agree to do a certain thing and Canada pursued the opposite course, Canada would benefit; but they just do not do things that way.

Is this not a fact, that the main trouble in our situation is the disparity between, we will say, three classes of products? I will illustrate it this way: You have interest to pay on money, and you have taxes; when the crash came in 1929 interest rates actually increased and taxes stayed at their same level or increase; at the same time labour went from forty cents an hour down to fifteen cents an hour, or no labour at all. Then the price of farm products took a drop. Is it not a fact that if interest rates, or the cost of money and taxes were on a fair basis, considering wages for labour and the price of agricultural products whether they be high or low, this country would have been fairly prosperous? When you throw one up and the other two down, naturally you get in the situation that we have been trying to stem by all kinds of methods during the past nine years.

And are we not going along in the same way? As you know, the bankers of the country at the present time are only purchasing short-term loans all over the country. Now, when you get out of this trouble and begin to get into prosperity, will that not affect us in exactly the opposite way, as it has in the past?

Mr. TOWERS: Dealing with the first part of your question where reference was made to the possibility of increasing exports through exchange depreciation and the suggestion that perhaps other people might have taken similar steps and therefore one cannot in these times steal a march on the other fellow in that way, I quite agree; and it was that that was in my mind when I suggested that the effect of exchange depreciation is largely an internal transfer. One may commence by offering a certain commodity at a lower foreign price if the exchange is low, because, translated into terms of Canadian dollars, that looks relatively a satisfactory price; which simply means that the foreigner gets the advantage there through obtaining this country's products more cheaply. One's competitors would then have to follow suit. So that a thing like that is liable to translate itself into a competition on the part of the primary producing countries to supply the consuming countries on a basis which is ruinous for the producers. In that case, it is a gift to the consuming countries.

One of the great advantages that England had during the depression—a thing which I do not suggest for a minute always benefits England in the long run because she depends on world prosperity for her existence—was that certainly the wind was tempered to the shorn lamb during the extreme depression years by the fact that England got her raw materials and food-stuffs on the bargain counter. I cannot conceive that that situation in the long-run benefits the primary producers.

Coming back to the proposition that exchange depreciation is by and large an internal transfer, it then becomes true, of course—I do not know whether it was obvious to the committee from the start—that it is necessarily purely a matter of governmental policy. It is a policy of weighing the benefits and disadvantages in the various sections of the community—something that only the government can decide. Therefore, I would have to be particularly careful about expressing any opinion as to what the policy should be. If the government were thinking of a cetratin policy, perhaps they would consider us as

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one of their advisers, but certainly I think it would be improper for an adviser to suggest the formulation of any policy which was so much a governmental matter.

Secondly, speaking of the changes which took place subsequent to 1929, with particular reference to the prices of certain commodities and then to interest rates, I think that followed through to its logical conclusion it comes to the same point that was mentioned earlier by Mr. Landeryou. That is, if all adjustments were made, you would be no better or worse off than you were before. And again I think the answer is that there are so many rigidities, so many long-term contracts, so many supposed short-term contracts in the form of wage rates which in fact cannot be changed quickly and an adjustment of the whole thing is such a long drawn out and disrupting process—something breaks before it takes place—that it is in fact impossible if the change in levels is a very wide one.

Lastly, on the question of short-term loans, speaking from memory, I think that the amount of dominion and guaranteed indebtedness maturing within the next ten years is not very much different from the figures of a number of years ago. In other words, I do not think we have been shortening on the average as we went along. To the extent that there are maturities, it does not mean if interest levels were higher that the process by which the interest burden is being cut down would be reversed over-night, but over a period of years. The point in that case is to be careful not to build up too large a volume of short-term indebtedness.

Mr. Quelch: I have never been aware that a country benefits by allowing its money to follow another country's money down. But Mr. Towers has admitted, I believe, that the agriculturalists would benefit by allowing the Canadian dollar to follow sterling down. At the same time, it would cost us more to pay our debt to the United States and more for the goods we purchase from Europe. I take it that the government considered the disadvantages were probably greater than the advantages. But we must admit this, surely; that even if the advantages under the policy that was maintained at that time were greater than the disadvantages, then it was being maintained at a distinct cost to the agricultural community. There is no doubt about that. Surely that in itself is an absolute justification for the giving of a bonus to the agriculturalists for maintaining a policy that penalizes them to a certain degree; whereas, on the other hand, it benefits the nation as a whole. That surely is a real reason why a bonus should be given to the agricultural community.

Mr. Jaques: Mr. Chairman, there is one aspect of this question I should like to direct to Mr. Towers, and that is on the question of debt. Since the debts not only of Canada but of the world are increasing, is it possible to pay the increase in debts with a decreasing price level?

The other point I wanted to make was in reference to the difference between the primary producer in Canada and the manufacturer. The manufacturer can and does meet the market by cutting down his production. If he decreases his production he turns loose a certain percentage of his men and they are kept for him in the meantime by the community. In other words, he receives a subsidy. Now, the farmer cannot do that. In the first place, he must keep his fields under cultivation. After his crop is grown, no matter how well he may farm, he cannot control the yield. And the greater the yield the lower is his price. While it may be possible for a country to get along temporarily with fewer motor cars, surely we cannot have too much food when we consider that half our population is underfed and undernourished.

Therefore, I should like to support my friend, Mr. Quelch, in his remarks. Since plenty of food must be grown, and since under the existing circumstances the producer is penalized for producing it, it does seem to me that

they have an unanswerable case when they say that in some way—I do not know how; it is not my business to say—they should be subsidized. I think their claim for a subsidy is a fair one, especially when they have to meet debts which are of course always incurred in good times and which they cannot meet when the price level has fallen below that at which their debts were incurred.

I just wanted to bring up those two points: first, how the increase in debts can be paid with a fallen price level; and, second, the question of subsidizing in some way the farmers who produced the food and who are penalized for making food plentiful.

Mr. VIEN: Mr. Chairman, I rise on a question of order. I am looking at the order of reference. We have two orders. The first one is dated January 27, to the effect that the standing committee on banking and commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the house.

The only other order of reference is that the report of the Bank of Canada for the year ended December 31, 1938, be referred to the said committee. We are bound to remain within the limits of our order of reference. I think the first part of our discussion this morning was within the order of reference because we were putting to Mr. Clark and Mr. Towers certain questions as to monetary policies and the effect of such monetary policies on the welfare of the country at large. But when it comes to raising the question as to whether producers of primary products should be subsidized, I think we are certainly outside of the orders of reference.

Mr. LANDERYOU: We were discussing the disequilibrium in the price structure, then we started to discuss the effect of exchange upon the price level; as I understood it Mr. Towers said that we have lost considerable as primary producers in western Canada due to the fact that our money has remained at par with the United States.

Mr. TOWERS: No.

Mr. LANDERYOU: You admitted that we would have had an increase in price had we allowed the dollar to follow—

Mr. TOWERS: An increase in price which would have been offset by an increase in prices of the things which we consume, leaving the advantage in the end questionable so far as the country is concerned—such advantage as the farmer would gain in reference to his debt. That was provided he had a product to sell. In drought years when he has nothing to sell, no exchange level makes any difference to him.

Mr. QUELCH: But suppose he can get a higher price for his products by letting the Canadian dollar follow the pound, he might then pay his debts.

Mr. TOWERS: I suggested a certain advantage might remain to the farmer in respect to his debts, but only of course if he had products to sell. In years of very severe drought the farmer who had nothing to sell naturally would not be interested in either the price level or the exchange level in that particular year because he had nothing to sell.

Mr. LANDERYOU: I will admit that those who produce nothing are not interested in the price level. But in western Canada, fortunately, we have producers of a considerable amount of goods in every year. In certain localities we have had droughts. As I understood your answer it was this: That there would have been an increase in the price received for their commodities by the farmers of western Canada and that increased price would have provided the purchasing power or the income necessary to meet some of their debts. There is no section of Canada which is suffering more heavily from low prices and debt than the section of our country occupied by the primary producers. You also stated that if there were an increase in the price of

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primary products, in a measurable period of time there would be a corresponding increase in the price of secondary products; that after a period of time it would balance up and that the disequilibrium between the prices of farm products and those of the secondary industry would remain. The problem as I see it is to get rid of the disequilibrium in the price structure, and you have contended that no monetary action could be taken to do away with the disequilibrium in the price structure. What I should like to get clear in my mind is any suggestion you may have outside of monetary action that could be taken in order to do away with that disequilibrium which exists in the price structure. For instance, would this action be necessary: Would it be necessary to fix a level beyond which the secondary prices could not rise and then take monetary action in order to increase the prices to primary producers in the form of subsidies or things of that nature? I am thinking of the establishment of fair and reasonable prices.

Mr. TOWERS: It does seem to me that with respect to methods and action which are non-monetary the committee would perhaps not expect me to reply. That does go so much into the field of governmental policy in the apportionment of such sacrifices that may be necessary, that I think it really is outside my scope.

Mr. LANDERYOU: Do you consider that in order to get rid of the disequilibrium some action would have to be taken outside of monetary action?

Mr. TOWERS: I think that follows, yes, from my thought that monetary action in itself cannot cure a disequilibrium between various types of prices.

Mr. QUELCH: Would you not call a subsidy monetary action?

Mr. TOWERS: No, not in the sense in which we are speaking of monetary policy to-day.

Mr. VIEN: Neither would price-fixing.

Mr. LANDERYOU: I do not think—

The CHAIRMAN: Do not press the question too far; I think it is out of order.

Mr. LANDERYOU: Mr. Chairman, I am not satisfied in my own mind that we do not have to take monetary action. I do not quite understand what he means or how far he intends to go. I do not understand where the differentiation comes in between certain kinds of action and monetary action. I believe a fixed price would necessitate monetary action, and I believe the subsidizing of primary producers would necessitate monetary action. In other words, where would the money come from to establish these prices. If the price level were too low, monetary action would have to be taken to raise the price level. I do not know what other action could be taken.

Mr. TOWERS: A government can find money in three ways: By taxation, or they might find it by borrowing the savings of the people, or they might find it by action which is allied with an expansive monetary policy, that is, borrowing which creates additional money in the process. What has been happening in Canada, and I should not restrict it to any specific government, is somewhat the same as what has happened in other countries, although not all, during the course of the last six or seven years. In other words, the total funds required by governments, whether for subsidies or the paying of wages, have been found in part by taxation, in part by borrowing the savings of the people and in part by a borrowing which has resulted because of a given monetary policy during that time, in a substantial increase in the amount of money in the form of deposits.

Mr. LANDERYOU: Do you say that all the monetary action that can be taken has been taken to do away with the disequilibrium in the price structure that exists in Canada?

Mr. Towers: I do not think that monetary policy was ever designed to cure the disequilibrium as between one set of products and another. I do not think it was ever designed for that purpose. So that I would say it has gone as far as it could. If it were not designed for that purpose at all, then it is irrelevant.

Mr. Quelch: Even to the extent of allowing our money to follow the money of other countries? That is monetary policy.

Mr. Towers: Presumably. I mentioned curing the disequilibrium between the prices of certain commodities and other commodities. Now, monetary action, other things being equal, will to the extent that it has any influence raise the general level or lower the general level; but there is no reason to suppose that it will change the relative position as between two different sets of commodities. Only things affecting the markets for those particular commodities will do that. Monetary action may influence, naturally, the general average of prices in either an upward or downward direction.

Mr. McGeer: I should like to go back, Mr. Chairman, to the glossary for a few moments, if I may. Dealing with the definition of money, Dr. Clark:

> Money, in the broad sense (now sanctified by popular usage), is any medium of exchange which is generally acceptable in day-to-day business transactions and the settlement of debts and contracts.

Now, when you use the term "generally acceptable," what do you mean?

Dr. Clark: I mean that anybody in the community will accept it freely without formality, without casting any doubt upon it. You and I and everybody else will accept it freely in any business transaction, in settlement of debts and that kind of thing.

Mr. McGeer: Take our subsidiary coins, we have no alternative but to accept those in payment of a debt up to the amount which may be legal tender.

Dr. Clark: Yes, some of them are legal tender up to $5. Any creditor has to accept them up to $5 or $10 in payment of a debt. That is quite true. But I think that generally the people of Canada are quite willing to accept subsidiary coins for any amount, even apart from the legal tender provision.

Mr. McGeer: Yes, but the money is actually created by law and its acceptance compelled by law?

Dr. Clark: Only up to a certain point.

Mr. McGeer: I mean within the legal tender limits. And, of course, with the Bank of Canada bill there is no limit.

Dr. Clark: That is right.

Mr. McGeer: So that taking our subsidiary coins and our Bank of Canada bills, those two forms of money which we use are pure creatures of law and their use is not a matter which anybody has the right to question or express his opinion as to whether or not he approves of that form or not?

Dr. Clark: That is true of your Bank of Canada notes. It is true in the case of subsidiary coins only up to a limited amount. In other words, Mr. McGeer, I do not think that it is the legal tender power or capacity given to these various forms of currency that you are speaking of which really makes them generally acceptable. The legal tender power is something which perhaps helps to make them generally acceptable, but it is not the sole reason, and it may not be a necessary reason. In other words, some forms of money which are not legal tender may be generally accepted, the public may use all the varieties of money even without the legal tender provision behind them.

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Mr. McGeer: That applies to your chartered bank-notes?

Dr. Clark: Yes.

Mr. McGeer: And also to your cheques transferring bank deposits?

Dr. Clark: Yes.

Mr. McGeer: But again both chartered bank notes and bank deposits are creatures of law enacted by parliament, are they not?

Dr. Clark: They are issued under the terms of provisions incorporated in statutes, yes.

Mr. McGeer: We have not any money in Canada that is not created by law, have we?

Dr. Clark: Of course, I think the answer to that depends on what you mean by "created by law." They are all issued under terms of legal authority of some sort or another. I think perhaps the essential point is this; that while all these forms of money are issued under terms of law or under statutory enactment of one sort or another, it may not be true that the value of any or of all the forms of money is the result of law.

Mr. McGeer: What I am getting at is this: parliament is the source of origination of all these things that we use as a medium of exchange in Canada. I mean, if it is a silver coin, it has its power and its significance in some statutory source; is that not correct?

Dr. Clark: Yes; as I say, the conditions under which any form of money is issued in Canada are laid down in statutory law.

Mr. McGeer: You refer particularly to the creation of a silver dollar on page 2 of your statement to the banking and commerce committee on March 16. You say:—

> Perhaps I can take the silver dollar as one illustration. The silver dollar contains 360 grains of silver, eight-tenths fine, with a certain remedy allowance. Now, as you know, the standard troy ounce contains 480 grains. The silver dollar contains 360 grains—that is, approximately three-quarters of an ounce, eight-tenths fine—and if you want to you can work out the actual intrinsic value of the metal in a silver dollar as three-quarters of one ounce times eight-tenths (for the fineness) times the current price of silver, which is 42 cents or 43 cents. It actually costs us at the mint, to make a silver dollar, not including overhead, 26 cents or 27 cents.

We give by law to 27 cents worth of silver bullion a money value of 100 cents, don't we?

Mr. Vien: Forty-three cents.

Dr. Clark: Yes.

Mr. McGeer: A money value of 100 cents.

Dr. Clark: Yes.

Mr. McGeer: That silver dollar is not convertible into anything outside of being melted down to bullion?

Dr. Clark: It is converted in practice into legal tender money.

Mr. McGeer: Up to $5.

Dr. Clark: Up to any amount.

Hon. Mr. Stewart: It is legal tender itself.

Mr. McGeer: There would not be any conversion there.

Dr. Clark: Subsidiary silver coins are legal tender only up to $5 or $10.

Mr. McGeer: Well, now, am I right in assuming that every time the government mints a silver dollar it has a profit of between 72 cents and 73 cents?

Dr. CLARK: Overlooking the overhead costs at the mint, yes.

Mr. McGEER: The overhead costs would only be a fraction of a cent?

Dr. CLARK: Very small.

Mr. McGEER: So that the government can and does create money values out of nothing, does it not?

Dr. CLARK: Yes, it may create money values—but there is one further essential point there. The amount of those substitution coins that are issued is limited to what the public demand is. If we should put them out by the million, or scores of millions, you would very soon find that these coins would become redundant—might not exchange at their face value.

Mr. McGEER: You can take them as legal tender.

Dr. CLARK: Only up to $5 or $10.

Mr. McGEER: Do you think that there is any danger, for instance, of people refusing to take that kind of Canadian money in payment of pensions?

Dr. CLARK: I would say this, if they were issued in very, very large amounts, far beyond the demand of the community for them, the real demand of the community for them, then they would become redundant. It would then be quite possible that the people would not take them at their face value.

Mr. TOWERS: May I break in there? May I say I have lived in a country where that has taken place. While people will take them if they cannot get anything else, the exasperation which I have seen, and which existed so far as people are concerned, is very considerable. They have been forced to carry around bags in their hands to cart away the coins.

Mr. McGEER: There are two objections to issuing that kind of money: one, that you might issue too much and the circulation of the coins would become redundant, with the possible result that there may be depreciation in their value, and the other objection is they are not convenient to carry.

Mr. TOWERS: A question of public desire, yes.

Mr. McGEER: Have you any idea of where the saturation point would be?

Dr. CLARK: Well, what we do, of course, is this: the demand for coins of various denominations is reflected at the chartered banks throughout the country. At the Christmas season, for instance, in Toronto, due to heavy retail sales in the department stores, there may be a threatened shortage of one cent pieces, ten cent pieces or twenty-five cent pieces. The department stores concerned and the other storekeepers will go to the banks and ask for more five cent pieces, ten cent pieces and so on. These orders from the banks come in to the Bank of Canada and go to the mint, and we fill these orders in accordance with the demands of the public as reflected in the demands through the chartered banks.

Mr. McGEER: That, of course, is one demand of the public; that is a demand proportionate to the volume of business being done.

Dr. CLARK: Quite so.

Mr. McGEER: With the money the public has.

Dr. CLARK: Quite.

Mr. McGEER: But there is another demand which you do not recognize at all, apparently, and that is the demand for a greater volume of money for government uses. Have you ever resorted to consideration of issuing this type of money as a meanas of alleviating the shortage of money for dominion, provincial and mnnicipal governments?

Dr. CLARK: By this type of money, you mean subsidiary coins?

Mr. McGEER: Yes, silver coins.

Dr. CLARK: I believe we are supplying all the public demand there is for such coins.

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Mr. McGEER: Well, now, dealing with Governor Towers' objection about the redundancy, may I say we could issue a silver certificate, could we not?

Dr. CLARK: Yes.

Mr. McGEER: That would be just as convenient as Bank of Canada money or chartered bank money?

Dr. CLARK: Yes.

Mr. McGEER: Convertible into silver coins, could we not?

Dr. CLARK: Yes.

Mr. McGEER: As a matter of fact, that has been done to a very large extent in the United States, has it not?

Dr. CLARK: Quite so.

Mr. McGEER: Do you know how much in value in silver certificates is now in circulation in the United States?

Dr. CLARK: I think we have the figures.

Mr. McGEER: I believe it is about $1,400,000,000.

Hon. Mr. STEVENS: $450,000,000?

Mr. McGEER: $1,450,000,000 is the amount now.

Dr. CLARK: We shall have the figures in a moment. It was for a considerable period of time $379,000,000, but it is larger now. I have forgotten the exact figure, but here it is—"Silver certificates, January 1939, $1,269,000,000."

Mr. McGEER: Now, Dr. Clark, I want to bring your attention to this: if it has been found practicable to issue $1,269,000,000 worth of silver certificates in the United States, is there not in the use of a similar process an opportunity for Canada's government to improve its monetary position?

Dr. CLARK Would they not take the place, Mr. McGeer, of Bank of Canada notes? Would it not mean the issue of these Bank of Canada notes would be reduced?

Mr. McGEER: Well, that would very largely depend on what use was made of that particular form of money.

Dr. CLARK: What are you going to get for them?

Mr. McGEER: If we finance certain programs of unemployment relief with a dollar which instead of costing the government something, the government was able to produce at a profit of 73 cents, it certainly would reduce the cost of financing government, would it not?

Dr. CLARK: The Bank of Canada notes can be produced without the cost of that 26 or 27 cents.

Mr. McGEER: So that you would prefer to have Bank of Canada notes relieved of their gold standard reserve provision?

Dr. CLARK: Well, I do not know that it is necessary to make a choice of those two things at the present time. I go back to the point made by Mr. Towers a little while ago as to the extent to which you should go in the use of monetary policy to achieve auy purpose which you wish to achieve from the point of view of national policy. What I was trying to say was this: if you issue one dollar silver certificates in the placing of putting out the silver dollars themselves, you will probably just be replacing Bank of Canada notes in circulation, because I believe the public generally carries, as a matter of habit, a certain amount of paper money of one dollar denomination and of other denominations. That is a question of habit, related to price levels and business activity, and so on prevailing at the time. If we put out a new type of one dollar note, it is likely merely to take the place of the other type of note that is now in circulation; so that you have a *substitution* of two types of currency rather than an increase.

Now, to the extent that you put these new silver certificates out, in payment of government expenditures of some sort, in other words, expand the total issue of paper money, then you come to the point which Mr. Towers was discussing a little while ago. I believe that is in his field and he may well answer it.

Mr. TOWERS: I did not quite follow the particular point.

Dr. CLARK: To the extent that silver certificates do not merely replace Bank of Canada notes in circulation, to the extent they are put out to expand the amount of paper money in circulation, then you get into the field of monetary policy and the appropriate amount of money that should be available or should be in circulation from time to time.

Mr. TOWERS: I see the point, although I am not quite sure whether Mr. McGeer meant to bring it out at the present time. I have no doubt it will come up in the course of discussion. As Dr. Clark said, there are two questions there: one is quantity and the other is kind. If quanity remains the same, more of one kind will displace something of the other. Is it your thought that the question of quantity, in other words, the whole question of monetary policy, should come up at this moment, and in that case from what point of view?

Mr. MCGEER: I was just dealing with one possible supply of cheaper Canadian money, and what I put to you is simply this: being a silver producing country we in Canada by following the silver certificate policy which the United States has adopted would have a source of funds available for government use. Is that not correct?

Mr. LANDERYOU: As an addition to what we already have.

Mr. TOWERS: As an addition?

Mr. MCGEER: Yes.

Mr. TOWERS: If I can just develop these two sections, as kind and quantity are two distinct things; speaking first in regard to kind, I think your thought is that even if these certificates did displace Bank of Canada notes there would be an improvement there, a greater profit because of the kind of money used. To the extent that increased Bank of Canada notes necessitated an increase in our gold holdings, it is true that the use of silver backing costs 25 cents—I must correct myself, 27 cents—and the legal gold reserve minimum so far as Bank of Canada notes is concerned is 25 per cent, therefore one needs only on a legal basis 25 cents against each dollar. In silver one has to invest 27 cents, so that apparently the silver would be more expensive in that sense.

Mr. MCGEER: Yes.

Mr. TOWERS: There is, of course, a further question which I will not try to evade, and that is the use which can be made of that silver reserve in case of necessity. If you have a reserve at all, I suppose, the only object would be the thought that you might want to use it some time. If you never want to use it there is not much point in having it. Why go to the expense of having it if you are not going to use it? Should you be called upon to use your silver reserve, of course, there is no telling what you could get for it. It may be 43 cents an ounce, it may be 20 cents an ounce, you cannot tell. On the other hand, with luck, it may be 60 cents.

Mr. MCGEER: Do you recall the amount of silver you had on hand when you sold it?

Mr. TOWERS: Approximately $3,000,000 worth.

Mr. MCGEER: Where was that sold?

Mr. TOWERS: Largely to the United States.

Mr. DONNELLY: Is it not a fact that silver was depreciating at that time?

Mr. TOWERS: A 2 cent drop had taken place just about that time.

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Mr. McGEER: If I might carry that through, if you had taken that silver over to the mint and it had gone into the Canadian dollar, how many Canadian dollars would you have received for it?

Mr. TOWERS: Presumably nearly $12,000,000 on the basis of 25 cents.

Mr. McGEER: Yes; we had $3,000,000 worth of silver which we sold to the United States for $3,000,000, but which we could have turned into the Canadian mint and received $12,000,000 of Canadian dollars.

Mr. TOWERS: The next step—

Mr. HOWARD: If the public will take it.

Mr. TOWERS: If I may keep to that question of kind as compared with quantity, if we had received that $12,000,000 in silver certificates and it had been thought wise to keep the total quantity of money outstanding on the same level as before, $12,000,000 of our notes would have been retired. and at the same time we would have lost $12,000,000 earning assets in the form of government securities, so that on balance we would have been behind.

Mr. VIEN: If you take the Supreme Court building that we are erecting at a cost of, let us say, $250,000, and instead of issuing government bonds and borrowing money we had paid for the Supreme Court out of silver certificates, how would it have worked out?

Mr. TOWERS: That, of course, goes quite away from the question of kind and the question of quantity. I would say if we are embarking on a policy which envisaged a very substantial increase in the quantity, the cheapest thing would be not to bother with silver or gold but to use paper. Paper would certainly be the cheapest.

Mr. McGEER: I think we are getting to that point now.

Mr. VIEN: I thought you were approaching it.

Mr. McGEER: The reason that I deal with silver is that we have the precedent of what the United States has done. You would not suggest for a moment that the issue of silver certificates and their use in the United States has indicated that that is not an acceptable form of money, would you?

Mr. TOWERS: I would say that a certificate which would have exactly the same appearance as a Bank of Canada note except a slight difference in wording, and which was given legal tender authority, would naturally be quite as acceptable.

Mr. McGEER: Do you know the form of money that you received for this $3,000,000 worth of silver that you sold to the United States?

Mr. TOWERS: Yes. The proceeds of that would have been sold, other things being equal, in the exchange market.

Mr. McGEER: American legal tender money paid for it?

Mr. TOWERS: No, Canadian. We would sell it in the exchange market, and we would receive $3,000,000 Canadian. Let me put it this way, we would receive $3,000,000 Canadian dollars, which we would then invest in $3,000,000 of dominion or provincial government securities, on which we would earn a rate depending on the time at which we bought; so that instead of having $3,000,000 in silver, we have $3,000,000 in dominion or provincial securities bearing interest.

Mr. McGEER: If a man took silver to the United States to sell as a commodity he could be paid for it in American silver certificates, could not he?

Mr. TOWERS: Yes, he could.

Mr. McGEER: And if he took that $3,000,000 worth of silver down to New York and offered it in the market there and closed the transaction there, he could be paid in American silver certificates?

Mr. TOWERS: Yes, that is true.

Mr. McGeer: Now, as a matter of fact, Mr. Towers, a good deal of our business in Canada to-day is being carried on in silver certificates of the United States, is it not?

Mr. Towers: I do not think any business in Canada is being carried on in silver certificates. They are not in circulation here, except in some insignificant quantity.

Mr. McGeer: American tourist trade runs between $325,000,000 and $350,000,000 a year. I say the bulk of that trade is carried on by the expenditure of silver certificates in Canada?

Mr. Towers: Which we then immediately ship back to the United States.

Mr. McGeer: But they go to our banks.

Mr. Towers: They go fairly rapidly. The amount in circulation, I believe, is not great.

Mr. McGeer: As a matter of fact, they do circulate in our banks and in our stores and amongst our own people.

Mr. Towers: That brings up another question, how much of our circulating medium in Canada may be made up of the notes of other countries. Obviously, there are none of any importance with the exception of certain notes of the United States which might pass from the tourists who spend them to the banks which receive them. I would be inclined to believe that the amount outstanding at any one time was not very great. Naturally, it would be at its peak in the summer. It would quite rapidly get into the banks and be sent back to the United States, certainly in the autumn of each year.

Mr. McGeer: Now, do you think that if we had converted that silver you sold to the United States into Canadian silver dollars to the value of $12,000,000 it would have had a depreciating influence on the value of the Canadian silver dollar?

Mr. Towers: I would assume it would simply have displaced other forms of currency to an equal amount, and therefore that there would be—

Mr. McGeer: The question I asked you was, do you believe it would have any depreciating influence on the value of the Canadian silver dollar?

Mr. Towers: I should say it would have displaced other forms of currency, and the silver dollar would continue to be accepted at par. But I would also say that if there is a demand for $12,000,000, it could still be filled, that there is plenty of silver left to do it.

Mr. McGeer: Yes, but what I am dealing with now is the specific transaction, whether we should have converted it into Canadian legal tender money at a profit of roughly $9,000,000 over and above what we got for it. That is really the situation, is it not?

Mr. Towers: No, because if it displaced an equal amount of other currency, we would have had to have sold $9,000,000 more of our assets to offset that reduction in our note issue.

Mr. McGeer: Yes, but that would not have happened, would it, Mr. Towers?

Mr. Towers: There you come to the question of quantity; if it were desirable at that stage to increase the total quantity of money by $9,000,000 or $12,000,000, or $15,000,000, that is another story. If it is desirable to increase the quantity, then one can still say what kind should be used in effecting that increase.

Mr. McGeer: Most of that $12,000,000 would have eventually found its way to the banks, would it not?

Mr. Towers: If the public did not want to use that silver dollar in their pockets, yes.

[Mr. Graham Ford Towers.]

Mr. McGeer: And it would have increased the bank deposits, would it not?

Mr. Towers: It would have increased the chartered banks cash in the first instance and that would have tended then to lead them to expand their activities and increase their deposits, yes.

Mr. McGeer: But there is something else that it might have done. They might have increased their deposits with the Bank of Canada?

Mr. Towers: As the silver dollars came in to them they would have wanted, yes, to deposit silver dollars with us; but whether they had deposited them with us or kept them in their tills, represents the same thing so far as their cash reserves are concerned; because their cash reserves are the total of what they have in their tills plus what they have with us. I am assuming, for the moment, of course, that those silver dollars in the way you mention, would have been designed by the government as full legal tender, and that they may have been counted in cash. If that were not the case, if they were only legal tender up to a certain point and could not be included by the banks as part of their cash reserves, the situation would be different.

Mr. Landeryou: I have just one question to ask you about this $12,000,000. Suppose the government had issued that $12,000,000 as Mr. McGeer said and had purchased $12,000,000 worth of commodities in the United States—we are purchasing war materials—suppose we had purchased $12,000,000 worth of war materials in the United States with this money, would they have accepted it?

Mr. Towers: No, the United States would not have accepted it for a moment. We would have had our own people accepting $12,000,000 silver dollars. Then the government would have $12,000,000 cash here and they could have bought either in Canada or gone to the exchange market for foreign funds. But probably, if I may say so, again speaking of kind rather than quantity, we would have had obviously a reduction in our circulation if that took place. That is, our circulation which was displaced by the $12,000,000 silver dollars we would have had to offset by selling securities, and therefore from the point of view of the financial advantage to the government through changing the kind of money, it does not exist at all.

Mr. McGeer: What is the total of our subsidiary coins—$28,000,000?

Dr. Clark: It is about that.

Mr. Towers: $29,698,000 at the end of December. Excuse me, that is only silver. Including nickel and bronze it would be something over $35,000,000.

Dr. Clark: No; a little over $30,000,000.

Mr. Tucker: If Mr. Towers is going to prepare a statement in answer to some of the questions that have been asked, I should like him if possible to answer what I suggested in my speech on February 16. I should like very much to have that dealt with in his statement.

Mr. McGeer: When we meet again I should like to continue examining Mr. Towers on the problem of how we are going to finance our existing debt, our increasing problems of defence, and what I envisage as a general increase in the total cost of government unless we find some way of financing more cheaply the cost of government. My own feeling is that progress is going to be very, very definitely stalemated and a situation even more serious to face than the one we have passed through. When we resume I should like the opportunity of examining Mr. Towers further along those lines.

Mr. Jaques: I asked Mr. Towers a question but he was interrupted before he could answer. Would Mr. Towers include the answer to that question in his notes for our next meeting. My question was as to the possibility of paying increased debts with a decrease in the price level.

Mr. Ross (St. Paul's): Is it not so that any considerable increase in currency amounts practically to a capital levy; that is, it cannot be done for nothing? It must cost somebody something.

The Chairman: Gentlemen, it is now past 1 o'clock. Your question can be answered at the next meeting.

(At 1.05 p.m. the committee adjourned to the call of the chair.)

APPENDIX

GLOSSARY OF MONETARY TERMS

(Submitted by Dr. W. C. Clark, Deputy Minister of Finance)

1. *Money*

Money, in the broad sense (now sanctified by popular usage), is any medium of exchange which is generally acceptable in day-to-day business transactions and the settlement of debts and contracts.

To understand this function of money, we should contrast it with barter. Barter is the direct exchange of one commodity for another. It is an inconvenient and time-consuming method of trade, as it involves each individual who has some article to trade finding some other individual who wants that particular article and has something of equal value to offer in exchange which is acceptable to the first party. The inconveniences of the barter system gave rise to the development of a money economy under which the parties wishing to trade first exchange the articles or services they have to sell into a go-between or intermediate commodity (i.e. a medium of exchange) which can then be exchanged for the goods and services which they wish to secure from others.

Besides serving as a medium of exchange, money, or at least certain forms of money, also perform other functions, including the following:

(1) It serves as a standard of value, as a yardstick by which the relative values of goods and services may be measured or their ratios of exchange determined, and as a unit of account, a unit in which debts and other contracts are expressed, in which prices are stated, and in which accounts are kept. (It may be noted that the standard unit of value, the "money of account," may not be used widely or at all as a medium of exchange.)

(2) It serves as a standard of future or deferred payments, as a yardstick by which may be measured the amount to be paid by a debtor to a creditor as a result of a contractual obligation extending over a period of time. (Note that if the standard is one that is likely to fluctuate in value, this fact will increase the risks of business enterprise, disturb the equitable relations of the money incomes of different social classes, and restrict the efficient functioning of the whole economic system.)

(3) It serves as a store of value, as a means of holding wealth in a form which can be immediately used. (The average size of an individual's holdings of coins, paper money, bank deposits and the gold reserves back of such currency and deposits may be taken as a rough indication of his use of money as a store of value. Everyone requires a certain stock of ready purchasing power on hand to meet day-to-day contingencies. This stock is a kind of revolving fund, as new current receipts are poured into it and new current expenditures are paid out of it. On the average a certain sum will be found adequate to enable the individual to pay all bills coming due and to meet unforeseen contingencies. He will not, normally at least, wish to build it up to undue proportions, because money as a store of value is an idle asset; only when he gets rid of it by spending or investing it does he receive benefit or gain.)

It should be noted that these functions of money all derive from its suitability as a medium of exchange; it is a means of payment, a measure of relative values and a means of holding wealth in liquid form only because it is "generally acceptable" in exchange for goods and services. In other words, the essence of money is general acceptability in the community concerned.

This rules out from the concept of money certain articles or commodities which may be sometimes used as a medium of exchange but which it is desirable to regard not as money but as local or temporary substitutes for money.

2. *Legal Tender*

Legal tender or lawful money means those forms of money which by the law of the country concerned must be accepted in fulfilment of contracts in terms of money—in settlement of debts, judgments, taxes, etc.

Unlimited legal tender refers to those forms of money which are legal tender for a payment of any amount.

Limited or partial legal tender refers to those forms of money which are legal tender for payment of only a limited amount stipulated by law.

In Canada, the following forms of money are legal tender up to the amounts stated:—

(1) Bank of Canada notes—up to any amount. (Bank of Canada Act, S. 24).

(2) Canadian gold coins—up to any amount. (Currency Act, S. 8).

(3) British gold sovereigns (and any multiples or divisions thereof) of the weight and fineness prescribed by the laws of the United Kingdom on May 4, 1910, and which are not of less weight than the current weight specified as the least current weight at which they are legal tender in the United Kingdom—legal tender at the rate of \$4.86-$\frac{2}{3}$ per sovereign up to any amount. (Currency Act, S. 9).

(4) Canadian silver coins—up to \$10 only. (Currency Act, S. 8).

(5) Canadian nickel coins—up to \$5 only. (Currency Act, S. 8).

(6) Canadian bronze coins—up to 25 cents only. (Currency Act, S. 8).

Note.—Up to January 31, 1934, United States eagles, half eagles and double eagles, coined after January 18, 1837, were legal tender up to any amount. (Currency Act, S. 10).

3. *Credit*

Credit is a very general term and has even an intangible meaning in reference to a person's or a corporation's financial reputation. It is derived from a Latin word which implies "trust." When a merchant sells goods on credit, he trusts his customer to pay for them in lawful money at the end of the month or on an agreed date. It would amount to the same thing if the merchant lent to the customer enough money to pay for the goods, on the understanding that the loan would be repaid by a certain date. To grant credit, therefore, is equivalent to a loan of money.

Credit is the opposite of *debt*. When a credit is granted, it involves both a creditor and a debtor—the one to whom the promise or obligation to pay is given and the one who gives the promise or obligation to pay. The former has an asset and the latter has an outstanding liability.

For the purposes of monetary discussion, *credit* or *credit money* may be defined as promises or obligations to pay legal tender money, which promises or obligations are generally accepted by the public in the settlement of debts and business transactions. It will therefore be apparent that not all credit is money. The ordinary individual's credit—his promise or obligation to pay legal tender money—is not money; he is known and "trusted" in too limited a

circle to give his promise to pay that quality of general acceptability which is the essential characteristic of money. Credit money therefore must represent the promise or obligation to pay legal tender money on the part of some one or some institution (such as a government or a bank) which is sufficiently well-known and trusted to have its promises to pay possess the quality of general acceptability.

Bank credit is the promise or obligation of a bank to pay legal tender currency.

4. *Various Kinds of Money Defined.*

A. Currency—

Currency includes those forms of money (coins and notes) which circulate freely from hand to hand without signature, endorsement or other formality. In popular usage, the word "cash" is generally used to signify what is here included under the term "currency," although in an accounting sense, "cash" on the assets side of a balance sheet includes both currency and bank balances ("cash on hand" and "cash in banks") and later we will have to define "bank cash" in still another sense.

1. Coins—

Coins are those forms of currency issued by the State in the form of metal discs composed of a metal or combination of metals of a weight and fineness specified by law, stamped by the State to indicate and certify their value for monetary purposes and designed in such a way as to prevent clipping and sweating and to render counterfeiting difficult.

Coins are of two general classes:—

(*a*) A *standard coin* is a coin whose face value is equal or approximately equal to the market value of the metal contained in it. The value of the coin is tied firmly to the value of the metal from which it is made by the device of requiring the country's mints to stand ready at all times to coin any amount of the metal offered to it without charge or at only a slight charge. (*See* more detailed discussion later under Gold Standard). When Canada was on the gold standard, our gold coins were standard coins. (They might also be called commodity money).

(*b*) Subsidiary coins (sometimes called token coins) are coins whose face value is higher, usually substantially higher, than the market value of the metal contained in them. They are usually composed of silver or of the base metals and are used to supply the need for money in small denominations—"small change." Subsidiary coins are kept in circulation on a parity with standard coins by the adoption of the following principles for their regulation:—

(i) by reducing the quantity of metal in them to such an extent that their intrinsic value is much below their face value;

(ii) by limiting the quantity of them to the actual needs of the community for coins of their particular denominations;

(iii) by limiting their legal tender quality to small sums; and

(iv) by making them redeemable in standard money.

It will be obvious that the State makes a profit out of the coinage of subsidiary coins. This profit is called seigniorage—which is the difference between the face value and the intrinsic value of a coin less the

actual cost to the Government of the process of coinage including the purchase of necessary alloys. Brassage is a term sometimes used to denote the charge made by a Government for coining bullion where such charge does not exceed the actual cost of coinage.

Under a gold standard, where the Mint stands ready to coin gold bullion into gold coins in unlimited amounts (that is, any amount that may be offered to it by private individuals), the system is referred to as free coinage of gold. This does not mean that no charge is made for the work of coinage; if no charge is made, it is called gratuitous coinage. The number of standard coins, *e.g.* gold dollars, which may be minted from an ounce of gold, is fixed by law, and is the mint price of gold.

2. Paper Money or Notes

Paper money or notes represent that part of the currency which takes the form of the promissory notes of a Government or of a bank. These notes are normally payable on demand in legal tender currency, either explicitly or implicitly. They are a form of credit money.

In some cases, the paper note is really a warehouse receipt or certificate for an equivalent amount of metallic coin or bullion and is directly convertible into that coin or bullion. For instance, a U.S. gold certificate (no longer in public circulation) bears an inscription of the following type: "There has been deposited in the Treasury of the United States of America .... dollars in gold." Similarly, a United States silver certificate is redeemable at the Treasury in standard silver dollars.

Paper money which is actually redeemable in standard coin or bullion (or foreign exchange) is called convertible paper money. As long as paper money can be redeemed in this way without expense, delay or other difficulty, its value will be the same as that of the coin or bullion (or foreign exchange) in which it is redeemable.

Inconvertible paper money or fiat money is money which is not redeemable in a standard coin or bullion. Its essential quality is that its value is independent of the material from which it is made as well as independent of any promise to redeem it in any other money or commodity. It may possess general acceptability as money because of its relative scarcity, the absence of alternative means of payment, the habituation of the people to the use of paper money, and the fact that it may be given legal tender power or be made acceptable in the payment of public dues. It may serve the purposes of money effectively as long as individuals for one or more of the above reasons are confident that other people will accept it as a means of payment.

Active note circulation is the term used to denote the total amount of notes in the hands of the public, that is, after deducting the amount held by banks. In the case of Bank of Canada notes, a portion is always held by the chartered banks as part of their cash reserves. In the case of chartered bank notes, a portion of the notes issued by one bank may be deposited with another bank and held temporarily by that other bank until presented through the clearing house.

B. Bank Deposits

Bank deposits, like bank notes and convertible government paper money, represent a form of credit money—indeed the most important form of credit money and much the largest portion of money in general.

Bank deposits are essentially credits entered on the books of a bank recording the obligation of the bank to pay legal tender currency to the persons in whose favour the entries are made. They are transferred from one person to another by a written instruction which normally takes the form of a bank cheque.

It should be noted that it is the bank deposit itself and not the cheque which constitutes money. The cheque is merely the mechanism of transfer—the instrument drawn by the holder of the deposit instructing the bank to pay legal tender currency to a third party in whose favour the cheque is drawn. Normally, also, the transfer is effected without any withdrawal of currency.

1. *Chartered Bank Deposits*

The deposits of a chartered or commercial bank may be classified as follows:—

(1) Public deposits, namely, those belonging to the general public, (individuals, firms and corporations) as distinct from those belonging to governments or other banks.

(2) Government deposits, that is, those belonging to the dominion and provincial governments. While probably subject to more rapid and drastic fluctuations, they are otherwise not essentially different from public deposits.

(3) Interbank deposits, that is, deposits belonging to other banks, either Canadian or foreign.

Another classification is based on the legal conditions of withdrawal. Demand or current deposits are those payable on demand and legally transferable by means of cheques. Time or savings deposits are those which the banks do not legally need to pay except after a certain number of days' notice or on a fixed date. In practice, however, Canadian banks always allow chequing against savings deposits and do not require notice. Normally most current deposits are non-interest bearing while savings deposits generally bear interest.

2. *Central Bank Deposits*

Central bank deposits are a special kind of money generally used only by banks and governments and therefore are not generally regarded as part of the supply of money in the hands of the public. In Canada, Bank of Canada deposits are of three kinds:

(1) deposits of or balances due to chartered banks which form part of the cash reserves of the latter and are used for transactions between banks and between banks and the Government;

(2) deposits of Quebec savings banks which are used for cash reserves and for transactions with other banks; and

(3) Government deposits—a portion of the cash balances of the Dominion Government are maintained with the Bank of Canada.

C. *Bank Cash or Cash Reserves*

Bank deposits, like bank notes, circulate freely as money because the public has confidence that the obligations they represent will be honoured by the banks whenever presented. This confidence is engendered by a number of factors, including the past record of the banks, the legislative provisions governing the operations of banks and the principles according to which banks are managed. One of these principles requires the maintenance of a certain proportion of their assets in absolutely liquid form and the balance in certain types of assets of varying degrees of liquidity. Cash reserve or bank cash is the term used to describe these assets which a bank keeps in absolutely liquid form. In Canada, only notes of and deposits with the Bank of Canada can legally be included in the cash reserves of chartered banks. By law, a chartered bank must maintain a cash reserve in this form equal to at least 5 per cent of its note and deposit

liabilities in Canada. In practice, the chartered banks find it necessary and expedient to keep a substantially higher cash reserve; for the system as a whole it averages about 10 per cent.

The Bank of Canada is required by law to keep a gold reserve of 25 per cent of its note and deposit liabilities (although provision is made for a temporary suspension of this requirement), and may in addition keep a reserve in certain kinds of foreign exchange. In practice it maintains a gold reserve substantially higher than 25 per cent.

5. FORMS OF MONEY IN CANADA.

- Money
  - Currency
    - Coins
      - *Standard coins* (No longer in active circulation) (Unlimited legal tender)
        - **Canadian $2½, $5, $10 and $20 gold coins**
        - British sovereigns.
      - *Subsidiary coins* (Limited legal tender)
        - Silver $1, 50c., 25c., 10c. (and 5c.) coins
        - Nickel 5c. piece.
        - Bronze 1c. piece.
    - Notes
      - ***Bank of Canada Notes*** (Unlimited legal tender) — **$1, $2, $5, $10, $20, $50, $100 and $1,000.**
      - ***Chartered Bank notes*** (Not legal tender) — **$5, $10, $20, $50, $100.**
  - Bank Deposits
    - ***Bank of Canada Deposits***
      - Chartered Banks.
      - Quebec Savings Banks.
      - Dominion Government.
    - ***Chartered Bank Deposits***
      - Public Deposits
        - Current or Demand.
        - Savings or Time.
      - Government Deposits.
      - Interbank Deposits.

I. Currency

6. AMOUNTS OF VARIOUS KINDS OF MONEY IN CANADA

(Thousands of dollars)

—	Total	Canadian Coins[1]					Notes				
								Bank of Canada and Dominion Notes[2]			Chartered Bank Notes
		Total	Gold	Silver	Nickel	Bronze	Total	Total	Active Circulation	Held by Chartered Banks	
Dec. 31, 1938	310,493	40,710	4,868	29,698	3,036	3,108	269,783	175,260	118,423	56,837	94,523
Dec. 31, 1937	306,370	39,364	4,868	28,613	2,872	3,011	267,006	165,330	111,430	53,900	101,676
Dec. 31, 1936	282,961	38,077	4,868	27,657	2,636	2,916	244,884	135,735	87,871	47,864	109,149
Dec. 31, 1935	255,980	37,374	4,868	27,242	2,434	2,830	218,606	99,677	59,098	40,579	118,929
Mar. 30, 1935	258,123	37,184	4,868	27,318	2,255	2,743	220,939	96,263	45,101	51,162	124,676
Feb. 28, 1935	383,162	36,904	4,868	27,100	2,209	2,727	346,258	220,280	35,232	185,048	125,978
Dec. 31, 1934	390,521	37,052	4,868	27,249	2,208	2,727	353,469	217,034	33,801	183,233	136,435
Dec. 30, 1933	352,299	37,596	4,868	28,032	2,025	2,671	314,703	182,644	30,311	152,333	132,059
Dec. 31, 1932	355,723	37,478	4,868	28,166	1,895	2,549	318,245	191,170	29,189	161,981	127,075
Dec. 31, 1931	352,604	37,201	4,868	28,265	1,726	2,342	315,403	174,390	30,479	143,911	141,013
Dec. 31, 1930	359,965	36,534	4,868	27,946	1,437	2,283	323,431	175,414	29,575	145,839	148,017
Dec. 31, 1929	415,802	36,373	4,868	27,984	1,261	2,260	379,429	203,932	31,613	172,319	175,497
Dec. 31, 1928	443,224	35,254	4,868	27,211	1,018	2,157	407,970	221,883	29,939	191,944	186,087

[1] Represents the net amount of Canadian coins issued up to the dates indicated (new issues less withdrawals). In the case of gold, no coins have been struck since 1916, and the amount shown above represents the net amount issued and outstanding up to that time. No coins of the United States or the United Kingdom are included.

[2] Prior to the opening of the Bank of Canada (March 11, 1935) notes issued by the Dominion were legal tender in Canada. In addition to the ordinary notes for public circulation there were notes issued in denominations of $1,000, $5,000 and $50,000, which were used only by the chartered banks for clearing purposes and for deposit in the Central Gold reserve. On March 11, 1935, the Bank of Canada assumed full obligation for the Dominion Notes outstanding as of that date, and has since replaced all but a small amount of such notes with bills of its own issue. Maintenance of deposits by the chartered banks in the central bank has made the use of the large notes for inter-bank purposes no longer necessary, and these have not been replaced.

6. AMOUNTS OF VARIOUS KINDS OF MONEY IN CANADA—*Con.*

II. Bank Deposits

(Thousands of dollars)

—	Bank of Canada				Chartered Banks					
	Total	Owing to Chartered Banks	Owing to Savings Banks	Owing to Dominion Governm't	Total	Public Deposits (in Canada)			Dominion[1] and Provincial Governm't Deposits	Inter-Bank[1] Deposits
						Total	Demand	Time		
Dec. 31, 1938	220,405	200,646	3,086	16,673	2,566,567	2,393,749	734,103	1,659,646	106,155	66,663
Dec. 31, 1937	210,580	196,040	3,457	11,083	2,410,771	2,282,013	699,187	1,582,826	52,611	76,147
Dec. 31, 1936	207,809	186,974	2,059	18,776	2,355,215	2,230,148	682,326	1,547,822	72,437	52,630
Dec. 31, 1935	200,319	181,636	766	17,917	2,229,752	2,126,898	640,921	1,485,977	52,592	50,262
Mar. 31, 1935	167,741	149,029	380	18,332	2,048,998	1,959,200	512,505	1,446,695	47,139	42,659
Feb. 28, 1935	....	....	....	....	2,047,980	1,944,561	516,238	1,428,323	58,807	44,612
Dec. 31, 1934	....	....	....	....	2,079,861	1,982,699	575,497	1,407,202	52,618	44,544
Dec. 30, 1933	....	....	....	....	1,971,472	1,858,788	501,871	1,356,917	61,247	51,437
Dec. 31, 1932	....	....	....	....	1,976,892	1,843,733	466,213	1,377,520	72,041	61,118
Dec. 31, 1931	....	....	....	....	2,116,070	1,926,627	566,585	1,360,042	130,886	58,557
Dec. 31, 1930	....	....	....	....	2,192,926	2,067,539	641,694	1,425,845	47,533	77,854
Dec. 31, 1929	....	....	....	....	2,378,173	2,163,720	729,315	1,434,405	91,605	122,848
Dec. 31, 1928	....	....	....	....	2,433,199	2,235,308	715,023	1,520,285	62,911	134,980

[1] Includes deposits outside of Canada.

6. AMOUNTS OF VARIOUS KINDS OF MONEY IN CANADA—*Con.*

III. Total Active Money Supply

(Thousands of dollars)

—	Total Active Coin Circulation[1]	Total Active Note Circulation[2]	Deposits of Chartered Banks payable in Canadian Funds[3]	Total Active Money Supply[4]
Dec. 31, 1938	30,683	206,741	2,498,000	2,735,424
Dec. 31, 1937	29,669	207,444	2,387,000	2,624,113
Dec. 31, 1936	28,190	191,097	2,323,000	2,542,287
Dec. 31, 1935	27,132	170,136	2,208,000	2,405,268
Mar. 31, 1935	25,709	163,412	2,034,000	2,223,121
Feb. 28, 1935	26,036	153,930	2,015,000	2,194,966
Dec. 31, 1934	26,184	157,284	2,050,000	2,233,468
Dec. 30, 1933	26,728	151,018	1,933,000	2,110,746
Dec. 31, 1932	26,610	144,117	1,928,000	2,098,727
Dec. 31, 1931	26,333	159,556	2,069,000	2,254,889
Dec. 31, 1930	25,666	162,581	2,128,000	2,316,247
Dec. 31, 1929	25,505	187,104	2,270,000	2,482,609
Dec. 31, 1928	24,386	193,092	2,315,000	2,532,478

[1] Total coins outstanding less amounts held by chartered banks (estimated prior to March, 1935) and less total gold coins assumed to be not in active circulation. (In fact, prior to 1932 a small amount of gold coins were in active circulation.)

[2] Total of Bank of Canada notes (prior to March, 1935, Dominion Notes) and chartered bank notes outstanding less amounts of the former held by chartered banks and of the latter held by other chartered banks.

[3] Since March, 1935, these figures have been compiled by the Bank of Canada prior to that date are estimates based on the monthly returns of the chartered banks.

[4] This is the total of the previous three columns. It should be noted that all deposits at the Bank of Canada, including those of the Dominion, are excluded.

7. Definitions relating to Monetary Standards

1. Monetary Standard.—This term refers to the type of money which is used as the standard unit of value. Thus, a country may be said to be on a gold standard, a silver standard, a paper standard or an exchange standard, depending on the commodity or thing which is used as the standard of value. Prior to 1931 Canada's monetary unit was the gold dollar (not coined), consisting of 25·8 grains of gold $\frac{9}{10}$ fine and Canada was said to be on the gold standard.

2. The Gold Standard.—The gold standard is a monetary system in which the monetary unit is defined as equal to a specified weight of gold of specified fineness and the value of the country's money is maintained, by certain devices referred to below, on a parity with the market value of gold both domestically and in free international markets.

(*a*) *Full Gold Coin Standard*

The full gold coin standard is a monetary system in which (*a*) the monetary unit is defined as a specified weight of gold of specified fineness; (*b*) gold coin is full legal tender; (*c*) all credit money issued by the Government or the Central Bank and all legal tender money other than gold coins, are redeemable at par in gold coin on demand; (*d*) gold is coined without limit and without substantial seigniorage charge for all who bring it to the Mint; (*e*) there is no restriction upon the importation or exportation of gold in any form or upon holding gold or circulating gold coins; (*f*) the amount of money outstanding is determined, or at least limited, by the amount of gold reserves.

(*b*) *Full Gold Bullion Standard*

The full gold bullion standard is a monetary system in which (*a*) the monetary unit is defined as a specified weight of gold of a specified fineness; (*b*) gold is not coined but gold bullion in the form of bars is full legal tender; (*c*) all credit money issued by the Government for the central bank and all legal tender money, are redeemable in certain minimum amounts on demand at par in gold bullion (i.e., in the form of gold bars of a minimum size, say 400 ounces); (*d*) gold of standard fineness is purchased by the Treasury or Central Bank at a fixed price and without limitation from all who offer it; (*e*) there is no restriction upon the importation or exportation of gold in any form; and (*f*) the amount of money outstanding is determined, or at least limited, by the amount of gold reserves.

(*c*) *Limited Gold Standards*

In recent years various countries have ceased to observe all the requirements noted above for the full gold coin or bullion standards and yet have maintained the value of their money in world markets equal to the value of a definite quantity of gold. In order to stabilize the value of the money in terms of gold, it is not essential that the country permit its residents to hold, to export or to import gold, nor that it should guarantee to exchange its money for gold, nor that it should regulate the quantity of its money in relation to gold, providing that the authorities themselves will buy and sell gold on the world markets for their own currency at a fixed price (for example, through an exchange stabilization fund).

In practice there are all sorts of variations.

3. The Silver Standard is the same as the gold standard but with silver substituted for gold.

NOTE: Historically many countries for long periods of time have used a silver standard but to-day no countries remain on the silver standard.

4. The Bimetallic Standard.—A bimetallic standard is one where the value of the monetary unit is maintained equal both to a fixed quantity of gold and to a fixed quantity of silver. Therefore, the authorities must be prepared to buy and sell both silver and gold at all times and without limit at the specified fixed prices. The standard of value is defined as either of the two metals, a definite quantity and fineness of each being specified, *e.g.*, 25·8 grains of gold and 412·8 grains of silver, each nine-tenths fine—a 16 to 1 ratio. All credit money and all legal tender money are redeemable at the option of the Government in either metal. There is no restriction upon the importation or exportation of either metal. Both metals are full legal tender, and there is free or unlimited coinage of both metals.

One implication of this standard is that if the ratio between the fixed prices for gold and silver (i.e., the coinage ratio) differs from the ratio between their prices in the open markets (i.e. the market ratio), the monetary authorities will have to buy one metal and sell the other until either the ratio of market prices comes into line with the coinage ratio, or the standard breaks down because they have sold all their stocks of one of the metals and all stocks of that metal have disappeared from circulation, either by export to foreign countries or into non-monetary uses.

NOTE: No country to-day is on such a standard.

5. Exchange Standard.—An exchange standard is a monetary system arranged or managed so as to maintain the foreign exchange value of the monetary unit at a fixed value in terms of some other monetary unit.

Thus, a gold exchange standard would be a monetary system which is tied to the currency of some other country which is on a gold standard. The essentials of this system would be the following:—

(*a*) The standard unit of value is defined as equivalent to a fixed amount of the currency of a country on the gold standard which in turn is equivalent to a definite quantity of gold of a certain fineness.

(*b*) The Government or the central bank establishes a credit balance in the gold standard country to whose currency it is desired to tie up. This credit balance may be built up by borrowing abroad or by depositing gold or exchange.

(*c*) All credit money issued by the Government or the central bank, and all legal tender money is redeemed, in minimum amounts on demand in gold exchange at a fixed ratio. That is, the Government agrees to sell drafts drawn against its bank balances in the gold standard country, at a price sufficiently above par to cover the cost of actually exporting gold to the depository country, but no higher. The sale of this gold exchange at such a price is equivalent to redeeming the country's own money in gold delivered in the depository country, since the bank balances in such gold standard country are convertible into gold at par.

(*d*) The Government agrees to buy bills of exchange on the depository country, at a discount sufficient to cover the cost of importing gold from that country. Thus a person having drafts on the depository country would receive as much domestic currency as if he were to obtain gold in the depository country, import it, and exchange it at the Treasury for domestic currency at par.

The chief advantage claimed for the gold exchange standard is economy in the use of gold. Internal circulation of gold is dispensed with. For a number of years, India was on a gold exchange standard—the rupee being tied to the pound sterling of Great Britain which was then on the gold standard.

In recent years we have had several instances of countries on a sterling exchange standard. Sterling today is not a gold standard but a managed paper standard; hence the monetary system of a country which today is tied to the pound sterling might be called a paper exchange standard. The principles of regulation are the same as those described above for the gold exchange standard—in essence, the monetary authorities must stand ready at all times to buy or sell at fixed prices any amount of drafts on the country with whose currency the domestic currency is linked up.

6. Paper or Fiat Standard.—The so-called paper or fiat standard is a monetary system in which the standard unit of value is merely a unit of inconvertible paper money or fiat money. The essentials of such a standard are:—

(*a*) a unit of inconvertible paper money is defined as constituting the standard unit of value;

(*b*) this standard paper money is given full legal tender power; and

(*c*) all credit money issued by the government and the central bank, and all other legal tender money, are made redeemable in the standard paper money.

A paper standard differs from a commodity standard chiefly in the way in which the quantity of issue is governed. Under a commodity standard, there is a high degree of automatic control of supply. For instance, the supply of gold is directly limited by the discovery and exhaustion of gold mines and the costs of producing the metal. Danger of over-issue is at a minimum, because of the slow process of mining the metal and the cost of producing it. In the case of paper, the supply can be multiplied overnight. History has shown many instances of the danger that the supply of inconvertible paper money tends to be regulated by the needs of hard-pressed national treasuries and the capacity of the printing presses.

7. Managed Paper Standard.—A managed paper standard is a monetary system where a unit of inconvertible paper money constitutes the standard of value but where the supply of money is regulated in accordance with scientific principles of monetary management. Such principles include regulation of the supply of money in accordance with certain criteria related to the encouragement of full employment and optimum business activity, the trend of prices, the prevention of speculative excesses or other economic maladjustments, etc. The success of any such system will depend, of course, on the establishment of a regulatory body with sufficient courage and honesty to resist the temptation to over-issue, on the degree of intelligence and restraint exercised by that body in managing the system, on the extent to which their powers and the nature of the country's financial and economic organization enable them to exercise effective control, and on the extent to which public confidence can be maintained.

8. *Other Monetary Terms.*

1. Velocity of Circulation.—Velocity of circulation is a measure of the number of times money is used or circulated in a given period, usually the average number of times a year. It is obtained by estimating the total volume of transactions carried out by means of money and dividing this by the average amount of money outstanding during the period.

Sometimes it is desired to distinguish between the velocity of circulation of currency and that of credit. In order to estimate these two separately it is necessary to estimate the volume of transactions effected by currency and the volume of transactions effected by credit, i.e., bank deposits. The latter can be estimated from figures of *bank debits*, i.e., of cheque transactions recorded by

the banks, but since no records are kept of many currency transactions and what records are kept are not available, it is usually very difficult to make any precise estimate of the velocity of circulation of currency.

2. The Value of Money.—The value of money is what money will buy. In order to find it we divide the unit of money by the price of that thing in terms of which we wish to express the value of money. For example, if the price of wheat is 60 cents a bushel, the value of the dollar is $\frac{1.00}{.60}=1\frac{2}{3}$ bushels of wheat. If the price of wheat a year ago was 80 cents a bushel, the value of the dollar then was $\frac{1.00}{.80}=1\frac{1}{4}$ bushels of wheat. Therefore we can also say that in terms of wheat the dollar is now worth $133\frac{1}{3}$ per cent of what it was worth last year, or that its value in terms of wheat has risen by $33\frac{1}{3}$ per cent.

In order to state the value of the dollar we must do so in terms of some thing which we are supposing it to buy. Generally, we do not use a single commodity but a large group of commodities, such as "goods at wholesale" and state not the absolute value of the money but its value at one time relative to its value at another time. For this purpose, we may make use of an *index number of prices*. To make an index number of prices we select a certain date as the starting point (or *base* period), take a representative number of commodities (either at wholesale or at retail), calculate the prices of these products to-day (or at any other date) as percentages of what they were in the base period, and ascertain the average of these percentages. There are many problems connected with the selection of base periods, the choice of commodities, and the calculation of averages. But all methods reveal with more or less accuracy any general tendency affecting all commodities, that is, a change in the general level of prices. Such a general tendency constitutes a change in the value of money. That is to say, the monetary unit divided by an index number of prices may be used to measure changes in the value or purchasing power of the monetary unit.

For example, we may compare the value of the dollar in January of this year with its value in January of 1933 in terms of goods at wholesale as follows: The index of wholesale prices was 73·3 in January, 1939, and was 63·8 in January, 1933. Dividing 1 by these two figures we get approximately ·01364 and .01567 which enables us to say that the value of money in terms of wholesale commodities had fallen by 13·0 per cent between January, 1933 and January, 1939.

3. Inflation.—It is very difficult to give a precise definition of inflation, because the term is rarely used precisely, without qualification.

Most people would agree that it involves a situation where the general level of prices is rising as a result of a process involving an increase in the supply of money.

It seems desirable, however, to use the term in a more restricted sense to refer to a situation where prices are rising more rapidly than the rate appropriate merely to sound economic recovery. Hence the following definitions are suggested.

Inflation or real inflation is a process which involves a rise in the general level of prices either of an extreme character, that is, at a more rapid rate than is incidental to the normal recovery of production and employment, or which is not accompanied by an increase in production.

Reflation may be used to refer to the phenomenon where the general level of prices is rising as a part of the process of recovery assisted by scientific monetary management.

Deliberate inflation may be defined as real inflation which is initiated, not by natural economic forces such, for instance, as the drastic increase in world production of gold which took place after 1890, but by conscious governmental action, for example, by an increase in the note issue of the credit base.

4. Deflation.—Deflation is less difficult to define because it is generally used only in the broad sense as meaning *any situation where the general level of prices is* falling as a result of a process involving a decrease in the supply of money.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 3

FRIDAY, MARCH 31, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

FRIDAY, March 31, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Bercovitch, Coldwell, Deachman, Donnelly, Dubuc, Hill, Hushion, Ilsley, Jaques, Kinley, Kirk, Lacroix (*Beauce*), Landeryou, Leduc, Macdonald (*Brantford City*), McGeer, Mallette, Maybank, Mayhew, Moore, Plaxton, Quelch, Ross (*Middlesex East*), Ross (*St. Paul's*), Tucker, Vien, Ward, Taylor.—29.

In attendance: Dr. W. C. Clark, Deputy Minister of Finance, and Mr. Graham F. Towers, Governor of the Bank of Canada.

In reply to questions asked by members of the Committee at the last meeting, Mr. Towers submitted the following written statements, viz:—

(*a*) Monetary Policy and the Price Level;

(*b*) The possibility of paying increased debts with a decrease in the price level;

(*c*) Memorandum dated March 30, 1939.

Ordered,—That Mr. Towers' statements be printed with this day's evidence. (*See* Appendix "A.")

Examination of Mr. Towers continued.

Mr. McGeer submitted a statement entitled "Basic statistics of chief economic importance" which was ordered to be printed in this day's proceedings. (*See* Appendix "B.")

At the request of Mr. Tucker, Mr. Towers agreed to supply members of the Committee with copies of the monthly Statistical Summary of the Bank of Canada.

At 1 o'clock the Committee adjourned to the call of the chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons, Room 277,

March 31, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The Chairman: Order. When the committee adjourned Mr. McGeer was examining Mr. Towers. If the committee agrees I would suggest that Mr. McGeer continue with his examination.

Mr. McGeer: Mr. Towers, when we closed the other morning we were dealing with the silver that had been sold by the Bank of Canada. Do you recall that?

Mr. Towers: Yes.

Mr. McGeer: I suggested if we had minted the silver into Canadian dollars we would have had funds available to the extent of something over $11,000,000. Is that correct?

Mr. Towers: Approximately, yes.

Mr. McGeer: If I remember correctly the two objections to that were, first that it would probably have pushed or retired some other form of Canadian money. Is that right?

Mr. Towers: Perhaps not in the form of an objection, but rather as a fact.

Mr. McGeer: As a result?

Mr. Towers: Yes.

Mr. McGeer: Well, now, that $11,000,000 could have been used in Canada, for instance, I suggest to you to pay a part of the pension liability of the Dominion. It could have been used for that purpose, could it not?

Mr. Towers: Yes, if that had been the monetary policy of the Dominion.

Mr. McGeer: Well, as a matter of fact there would be no change in the monetary policy by coining silver coins, because we coin silver coins to-day, do we not?

Mr. Towers: We do, but we limit the amount to the demand of the public.

Mr. McGeer: To the demand from the banks for exchange purposes in business; is that not correct?

Mr. Towers: The banks, of course, simply reflect the demand they receive from the public.

Mr. McGeer: In a business way?

Mr. Towers: In a business way.

Mr. McGeer: The demand of people for pensions, whether it be in silver money or other kinds of money, is not considered by you a demand from the public is it?

Mr. Towers: I would consider that was a desire on the part of many citizens for additional money.

Mr. McGeer: Of course, you are aware are you not, that we only pay pensions in Canada to people who have attained the age of 70 years, and that there is a very large demand throughout this Dominion to reduce that age to 65, and some even believe that it ought to be reduced to 60. You are aware of that?

Mr. Towers: I am aware of that.

Mr. McGeer: You are also aware of the fact that the reason we are not doing it is that we are told that this country cannot afford it?

Mr. TOWERS: I am not aware what the reason is; but, of course, if it was decided as a matter of government policy to do anything involving expenditure, it would be within the field of government to decide how these funds should be obtained.

Mr. McGEER: Yes, and as an advisor to the government, if there are funds available, it is your business to let the government know, is it not? That is, as a financial advisor to the government.

Mr. TOWERS: Funds available? I find it rather hard to answer that, as it almost seems to imply that there is a chest in which certain funds lie. The funds are available from the Canadian people, and of course it is a question of policy to decide how much government will take from one to give to another.

Mr. McGEER: That is the theory that governmental expenditure must be made through the medium of taxation.

Mr. TOWERS: Governmental expenditure may be made either through the medium of taxation or through borrowing, or through the issue of currency; but in any event the cost to the people as a whole is there. I think the cost is much greater in some methods than in others, but in all three methods the country as a whole pays and there is no way of escaping it.

Mr. McGEER: There may be some disagreement on that. In any event, we have got to the point that government financing and expenditure can be carried out by borrowing, which means in the net result, taxation, by taxation direct. That, I take it, is your view; by paying out of current revenue the current liability, and the third is by issue of currency. If we had converted the $3,000,000 of silver that you sold in the United States to $11,000,000 of Canadian currency, would it not have been possible to place at the disposal of the Canadian government for the payment of pensions with no actual outlay at the moment, at least $8,000,000 of Canadian currency?

Mr. TOWERS: The answer is yes, and it would be just as possible to do it through the operation of the Bank of Canada.

Mr. McGEER: If you would just answer the question—

Mr. TOWERS: That comes back to the question of kind again.

Mr. McGEER: We are going to deal with kind; I am coming to that. I am going to give you every opportunity to deal with the question of the theory of increasing costs through issue of currency, but the point I am dealing with at the moment is that if that $3,000,000 of silver which we had in the possession of the Bank of Canada, and which was sold to the United States, had been converted into Canadian money, we could have placed at the disposal of the Canadian government $8,000,000 for the purpose of meeting a portion of the current pension liability. Is that correct?

Mr. TOWERS: Disregarding the question of the policy involved there, the method also would have been more expensive, of course, than doing it in some other form through the Bank of Canada.

Mr. McGEER: We could have done as I have outlined, could we not?

Mr. TOWERS: In fact, government and parliament can do anything which you suggest.

Mr. McGEER: We could have done that under our present policy.

Mr. TOWERS: Not under our present policy, no.

Mr. McGEER: Under our present power?

Mr. TOWERS: Under our present method and power, parliament in any such matter has completely sovereign power, as I need hardly say in this committee.

Mr. McGEER: You know the annual production of all silver in Canada?

Mr. TOWERS: Approximately, yes, but I do not carry the figures in my mind.

Mr. McGEER: You are conversant with the agreement which was signed by Canada in 1933 entitled "Memorandum of heads of agreement entered into by the delegates of China, India, and Spain as holders of large stocks and users of silver, and Australia, Canada, the United States, Mexico and Peru, as the principal producers of silver at the monetary and economic conference in London, in July, 1933." You are conversant with that silver agreement?

Mr. TOWERS: Yes.

Mr. McGEER: Was it not a condition of that agreement that Canada would join with other countries in increasing the circulation of silver coinage?

Mr. TOWERS: I do not recall there was any mention in that agreement of increasing the circulation of silver coinage, but Dr. Clark is very much more familiar with the details of it than I am.

Mr. McGEER: In any event, you will agree that this agreement obligated the governments included as parties to withdraw from circulation a certain amount of silver every year?

Mr. TOWERS: To buy a certain amount from the production of their country, yes.

Mr. McGEER: With a view to getting it out of circulation?

Mr. TOWERS: With a view to taking it off the market, yes.

Mr. McGEER: That was all done with a view to stabilize the price of silver?

Mr. TOWERS: That, I believe, was the underlying thought.

Mr. McGEER: And the reason for that was to provide some measure of security for the operation of silver mines?

Mr. TOWERS: I would have to leave the answer to that question to someone else who knew more about the implications.

Mr. McGEER: In any event, we are a substantial silver producing country, are we not?

Mr. TOWERS: Yes.

Mr. McGEER: So that if we utilized silver as a basis of domestic currency in Canada we would aid our own silver mining industry, would we not?

Mr. TOWERS: I do not know; it would depend upon the price that was paid.

Mr. McGEER: Suppose we stabilized the price at a figure that the silver mines could operate?

Mr. TOWERS: The extent of the assistance to silver mines is, of course, dependent on whether the Canadian price was above the world price. If it was the same as the world price they would not be any better off than they are now.

Mr. McGEER: No, but in any event it would be somewhat disastrous to the silver mining industry to have the price drop to 26 cents an ounce as it did a few years ago.

Mr. TOWERS: In that case I suppose the suggestion would be that the government should pay more than that; in other words, pay a subsidy.

Mr. McGEER: As a matter of fact that is what is being done in the United States.

Mr. TOWERS: Yes, it is.

Mr. McGEER: And the United States is really carrying that subsidy program on to Mexico and Canada, maybe not directly, but indirectly.

Mr. TOWERS: I have no comment to make on that.

Mr. McGEER: In any event, you will agree that the use of silver as a base or reserve for Canadian domestic currency would be some measure of aid to our silver mines in Canada?

Mr. TOWERS: If the price paid was above the world price, yes.

Mr. McGeer: If the price paid were a price at which the silver producer could continue to operate, and I mean operate at a profit.

Mr. Towers: If you will excuse my interrupting there, I do not think it is a monetary matter, Mr. McGeer. I think it is a question of silver subsidy and as such, a question of government policy. There is this further thought, that I believe the major quantity of silver produced in Canada is produced by very large, wealthy companies as a by-product. It makes a question of subsidy so delicate that perhaps I should not refer to it.

Mr. McGeer: Yes, and of course, one of the things that would follow is this: if silver lost its value the question arises as to whether nor not lead and zinc production could be carried on because in some instances instead of silver being a by-product it is the main product and the lead and zinc are the by-products.

Mr. Towers: I had been thinking of course, of such big companies as Consolidated Smelters, International Nickel, Noranda and so forth. I had not understood they were requesting a subsidy.

Mr. McGeer: No, I do not suppose they are; but you know there are a great many other silver propositions that are idle in Canada.

Mr. Towers: Yes; it would be rather peculiar, though, to subsidize all silver. If one tried to pay a subsidy in an indirect way on a monetary basis perhaps it would be peculiar to subsidize all silver for the sake of encouraging 10 or 15 per cent of it.

Mr. McGeer: Well, that may be true, but in any event, if Canada is a silver producing country and we use silver, that at least provides another outlet for the silver production of our own country. You will agree with that?

Mr. Towers: I would say that would apply to almost any other commodity.

Mr. McGeer: I know. All I want to know is whether you agree it applies to silver?

Mr. Towers: I would say it does not apply specifically to silver; but it applies to silver as well as to any other commodity.

Mr. McGeer: When the government through its central bank buys silver at a bullion price below the money value of the weight of bullion put into the coin and the government finds a way to use these coins, does not the government issue that sort of money at a profit to the government?

Mr. Towers: Yes, they do, but the profit is not as great as if they issued it in some other form.

Mr. McGeer: Then, if we were to take our 22,000,000 ounces of silver and purchase it at 40—

Mr. Towers: Forty-three cents.

Mr. McGeer: Could we not convert it into—how many Canadian silver dollars could we convert it into at present?

Dr. Clark: Nearly four times as much.

Mr. McGeer: And the cost would be roughly $15,000,000, would it not?

Mr. Towers: I assume so.

Mr. McGeer: And we would be able to convert that into Canadian dollars at 27 cents?

Mr. Towers: Yes.

Mr. McGeer: That would give us slightly over $40,000,000.

Mr. Towers: 22,000,000 ounces would be approximately $9,500,000.

Mr. McGeer: Converted into silver dollars at our present price, how many dollars' worth?

[Mr. Graham Ford Towers.]

Mr. TOWERS: Recalling that there are 27 cents worth of silver at the present price in each silver dollar, one would find there is about, shall we say, $35,000,000 worth of silver dollars.

Mr. MCGEER: So that by buying $9,000,000 worth of silver we can produce $35,000,000 worth of Canadian silver dollars; is that right?

Mr. TOWER: Yes.

Mr. MCGEER: Now, then, on that transaction, if we decided to use Canadian silver for Canadian currency the Government of Canada could make a profit on the difference between the cost of the silver and the value of the silver dollar that it minted.

Mr. TOWERS: A profit that is less than the profit they are making now.

Mr. MCGEER: What I suggest to you gentlement is that while you may smile, you probably would bring a little smile to a great many millions of people in Canada if you make money acceptable to them.

The CHAIRMAN: Let us get on with the examination.

Mr. MCGEER: Now you say that proposition is true but there is an even cheaper way of producing money than that. Do you mean by that to print paper money on a reserve of gold of 25 per cent?

Mr. TOWERS: I do, yes.

Mr. MCGEER: Well, now, Mr. Towers, do you agree with me that there is a definite distinction between silver reserves used to sustain domestic currency and gold reserves used to sustain national currency, which in the main is a form of reserve cash for bank deposits, and secondly an international medium of exchange of the nation?

Mr. TOWERS: You refer to silver used in a form to sustain domestic currency. I would say this: so long as the system you have maintains the confidence of the people you do not need any reserve to sustain domestic currency.

Mr. MCGEER: I was coming to that a little later on, but I believe it might help me, as a member of the committee, and help the members of the committee, to deal first with subsidiary coins in which silver plays the largest part, and that is why I am dealing with silver, and then we can deal with banknote currency and then deal with bank deposits and cheque currency and then deal with Bank of Canada currency, so that there would be no difficulty about developing what can be done with all other forms of Canadian currency available. That is, I am confining the matter to silver coins at the moment. What I would like to develop is what are the possibilities of silver and subsidiary coins, and then take up the others in their turn.

The CHAIRMAN: May I suggest that we should not have quite so much repetition? I think we will get along faster and the record will be clearer if we do not have so much repetition.

Mr. MCGEER: In what way?

The CHAIRMAN: Putting the same question in different wording.

Mr. MCGEER: I did not know I had been guilty of that.

The CHAIRMAN: I just make the suggestion.

Mr. MCGEER: I am very glad to bow to your ruling. I am certainly more than anxious to have the matter as clear as possible.

The CHAIRMAN: Yes, that is what we want.

Mr. MCGEER: But sometimes we do not get the answer that we expect. It should be "yes" or "no" and it does involve repeating the question.

The CHAIRMAN: These questions are answered with difficulty by "yes" or "no."

Mr. VIEN: May I inquire from Mr. McGeer if his purpose would not be better served if Mr. Towers were requested to make a statement to the committee with respect to kind and quantity of currency?

Mr. McGEER: No, I do not think so.

Mr. VIEN: I thought that it would cover practically all the questions that we have been asking so far. It might determine what are the policies that affect quantity, and go into the various kinds of currency that make up that quantity.

Mr. McGEER: I believe, Mr. Chairman, this matter is of more importance than that, and I would like to develop it in my own way.

Mr. VIEN: I was suggesting that to my friend. I do not want to interfere. I thought that we would perhaps save time and reach the same objective.

Mr. COLDWELL: I think Mr. McGeer should be allowed to develop the matter in his own way; but on the other hand, I think Mr. McGeer should allow Mr. Towers to answer in his own way.

The CHAIRMAN: Yes, quite. With that understanding we shall go ahead with the examination.

Mr. McGEER: If, as I said, there is a difference between a domestic currency backed by silver and a national currency backed by gold—to which I take it you agree?

Mr. TOWERS: I did agree, as you will remember, that in so far as a domestic currency was concerned, there was perhaps no necessity for a reserve.

Mr. McGEER: What I asked you was if there was not a definite distinction between a domestic currency backed by silver and a national currency backed by gold?

Mr. TOWERS: The distinction, I think, would be that in case of necessity, the government, having sovereign powers, could force the silver on the people at a given rate; whereas, of course, they could not force it on any foreigner.

Mr. McGEER: That is quite true; and that is the thing that makes it a domestic currency and not a currency that affects international currency, does it not?

Mr. TOWERS: The question of quantity in a domestic currency will, of course, have its repercussions.

Mr. LANDERYOU: We are not discussing quantity.

Mr. McGEER: I mean to say that the issue of silver currency would not have the same influence on international exchange as the issue of your gold backed currency.

Mr. TOWERS: The over issue of currency in Canada will have an effect on international exchange, no matter what the backing is.

Mr. McGEER: I did not ask you that question. The question I asked you was whether or not you agreed with the statement that an issue of currency backed by silver would not have the same influence on international exchange as a currency backed by gold.

Mr. TOWERS: It would have exactly the same influence, in my opinion.

Mr. McGEER: It would have exactly the same influence?

Mr. TOWERS: Yes.

Mr. McGEER: Why?

Mr. TOWERS: It is the quantity of currency that is issued, not the backing, which is the major factor.

Mr. McGEER: As a matter of fact, your international currency, that is your national Bank of Canada dollar, is a dollar backed by a standard of gold that is of universal application to-day, is it not?

[Mr. Graham Ford Towers.]

Mr. TOWERS: In fact, of course, we are not on the gold standard; so that, except from the psychological point of view, I do not think that the ratio of gold backing has any meaning at the moment. I think it has a meaning in the event of some considerable upset, either economic or otherwise. It has a meaning inasmuch as it provides us with money that can be accepted anywhere and used in accordance with our needs. But as a domestic factor influencing the domestic value of our currency, apart from such psychological contentment as it affords the people, it has no meaning.

Mr. McGEER: What do you mean by an over issue of currency?

Mr. TOWERS: I mean an issue of money—and using the word money, in accordance with the glossary that has been provided, I assume that we are including all forms, including bank deposits, which is so large in relation to the needs of business that it causes an inflationary upward movement in prices.

Mr. McGEER: Do you think that, if we issue $40,000,000 a year of silver currency to meet the pension obligations of this dominion, it will cause an inflationary condition in this dominion?

Mr. TOWERS: I should answer that question in this way, that an issue of $40,000,000 additional currency in any form, whether it is backed by silver or not, might or might not cause an inflation. It would depend upon the condition of business, the general demand for credit. It would depend upon a great many things. If it was carried on sufficiently long, the answer is clear—yes, it would cause inflation. Whether it would do so in one year or two, I cannot say.

Mr. McGEER: If you were maintaining a system of taxation that brought it back to the government for reissue, that would offset the inflationary tendency, would it not?

Mr. TOWERS: I cannot see much object in pushing it out with one hand and taking it back in the form of taxation with the other.

Mr. McGEER: No. But you would only do that to avoid the disastrous effect of inflation which is, as I think you will agree, another form of taxation.

Mr. TOWERS: Yes. But perhaps that object could be accomplished by not issuing it at all.

Mr. McGEER: In other words, as long as you leave the Canadian people without pensions, there would be no danger of inflation from that source?

Mr. TOWERS: The governmental policy in respect to that can be implemented by asking the remaining Canadian people directly for their contribution. Surely that would be the honest thing.

Mr. McGEER: But you are aware, are you not, Mr. Towers, that our municipal, provincial and dominion government are taxing the people of Canada now to the extent of something more than a billion dollars a year?

Mr. TOWERS: And spending it on the Canadian people.

Mr. McGEER: Well, not altogether. Some of it goes in interest outside of Canada, does it not? That has not been spent on the Canadian people. We are dealing with one specific issue. I say we are spending considerable of that money outside of Canada. We are not spending it all on the Canadian people?

Mr. TOWERS: No, we are not. But I would say that the policy involved here is somewhat of a separate matter, is it not?

Mr. McGEER: Are you not aware, Mr. Towers, that in practically every one of our cities in Canada the burden of taxation is now so great that investment in real estate has been practically destroyed?

Mr. TOWERS: I would not like to comment on that. I was not aware that the situation was, in all cases, as extreme as that. But then I do not pretend to be an expert.

Mr. McGEER: But you are aware, from your investigations, that the burden of debt on a great many municipalities in Canada has become unpayable and that they had defaulted?

Mr. TOWERS: Yes. Without reference to the municipal situation in itself, so to speak, but thinking of it in relation to the dominion and provinces, I am rather glad to say that the municipalities in many cases are in a much better position.

Mr. McGEER: Yes, but in many cases they are not?

Mr. TOWERS: Unfortunately, no.

Mr. McGEER: For instance, take my own city of Vancouver. I happen to know that situation very well.

Mr. LANDERYOU: Take Montreal.

Mr. McGEER: Or take Montreal. I think there is something like $140,000,000 of municipal debts in Ontario in default; and you have recently investigated the city of Winnipeg?

Mr. TOWERS: Not us, no.

Mr. McGEER: Oh, not you. As a matter of fact, I can tell you from actual experience as a member of the Mayors' Conference of Canada and as a former mayor of the city of Vancouver, that our municipalities are largely being maintained to-day because of deferred maintenance. For instance, we lack schools, we lack streets, we lack hospitals, we lack innumerable necessary public services, including reformation of a great portion of our housing, which cannot be carried on because the contributive powers of the taxpayers owning real estate in cities has been exhausted. Would you say that this is not a fair statement?

Mr. TOWERS: I would not like to comment on that statement. I am sure you know much more about it than I do. I dare say that, apart from municipalities, there are various provinces too which feel the pinch.

Mr. McGEER: Yes. All of our provincial governments are demanding some way of financing provincial expansion and provincial improvements, are they not?

Mr. TOWERS: No doubt.

Mr. McGEER: And the same thing applies to agricultural holdings, does it not? So acute has that situation become that we are probably going to introduce legislation this year to relieve that situation. You are acquainted with that fact ?

Mr. TOWERS: I read that in the papers, yes.

Mr. McGEER: The point I am coming to is that if we could find some way of putting into circulation more of the medium of exchange necessary to meet the existing tax obligation, we would help the general situation, would we not, if we could do it without cost to the state and to the taxpayers at large?

Mr. TOWERS: Unfortunately, in my opinion, it cannot be done without cost.

Mr. McGEER: What I am saying is—we may differ on that—if we could find some way of putting into circulation a medium of exchange that could be used to meet the going concern activities, including the payment of taxes, without cost to the state or the people, that would help the situation, would it not?

Mr. TOWERS: With great respect, Mr. McGeer, that is a hypothetical question which I have already answered by saying that I do not believe that it could be done.

Mr. McGEER: Yes.

Mr. TOWERS: So that to put it on the basis of "it could be done," and expect an answer of "yes" does seem to me to be going beyond practicality, so speak, if I may say so.

[Mr. Graham Ford Towers.]

Mr. McGEER: You will agree with me, will you not, that in the last twenty years throughout the world there have been carried on a great many experiments and changes in the monetary system with a view to making the supply of money for government and people less costly?

Mr. TOWERS: Yes, indeed. I recall the German experiment of 1923.

Mr. McGEER: Yes, we will deal with that, too. But we also have the German experiment of 1933 to 1939, have we not?

Mr. TOWERS: We have.

Mr. McGEER: And do you suggest for one moment that the Germans have not been able to build up, out of defeat and debt and repudiation, the most powerful military organization that Europe has ever known?

Mr. TOWERS: I agree. You will find that in a totalitarian state the urge to tinker with money disappears; because when everything is in the one man's hands, he realizes that men and materials are what count. That is how they built up.

Mr. McGEER: The statement is made by the German high command that they are issuing currency in Germany against the productive power of that state, and that because they have resorted to that practice they have been able to reorganize the military power, the productive power and the employment power of the German people. You have heard that statement, have you not?

Mr. TOWERS: None of the Germans whose understanding of that situation is accurate would put the monetary end in anything more than third or fourth place. It is the other things they have done which have produced the results.

Mr. McGEER: I quite agree. But the point is that to get what they have secured, they had to have a medium of exchange, did they not?

Mr. TOWERS: No. I should say that principally they have to have laws determining exactly what the people should do, what they should eat, what wages they should receive and, in general, how their lives should be regulated. Once that rigid system is installed you can play pretty well any games with money that you want to play.

Mr. McGEER: But in the beginning they have to finance the production of arms, do they not?

Mr. TOWERS: They do; which, after a very short delay, they accomplish by taking it back from the people in taxation or by making the people forego consumption by some other method.

Mr. McGEER: In any event, you will agree, will you not, that to maintain the going concern activities of the state, including the payment of taxes, the volume of currency in circulation has to be equated to the rate of progress?

Mr. TOWERS: To the rate of progress of the country as a whole?

Mr. McGEER: Yes.

Mr. TOWERS: Yes.

Mr. McGEER: You will also agree that there is a danger of having too much taxation? There can be a danger of having too much taxation?

Mr. TOWERS: That is another way of saying that there is a danger of too much governmental expenditure, perhaps.

Mr. McGEER: Yes. But whether it be from too much governmental expenditure or from too rapid a rate of progress, there can be such a thing as depression coming from too much taxation.

Mr. TOWERS: Under certain circumstances, yes, when it had a very dislocating effect.

Mr. McGEER: Yes. So that if we could find some way of reducing the cost of government by reducing the cost of financing government, that would ease the burden of taxation, would it not?

Mr. TOWERS: Yes.

Mr. MCGEER: Now I come back to this proposition of ours. Having 22,000,000 ounces of silver produced annually, which can be purchased for $9,000,000 and reproduced in coins at the figure you gave of $35,000,000, we could show, in so far as the immediate results of that transaction are concerned, a profit on that money development of $26,000,000 a year.

Mr. TOWERS: But still a profit which would be less than it is through following the method which we now follow.

Mr. MCGEER: We will deal with that later; but I say that would be true.

Mr. KINLEY: Who would be paying the profit? I ask you the question, who would be paying the profit? Where would you get the profit from?

Mr. MCGEER: Well, if my friend will read the Currency Act, he will find there—

Mr. KINLEY: Answer my question.

Mr. MCGEER: I am answering it, if you will let me.

Mr. KINLEY: Answer it, then.

Mr. MCGEER: Let me answer it. If you will read the Currency Act—

Mr. KINLEY: Let us assume that I did.

Mr. MCGEER: —there you will find that, by law, parliament has authorized the minting of a dollar coin and has given to that dollar coin a hundred cents money value, although there is only twenty cents worth of silver in the coin.

Mr. KINLEY: You cannot perform miracles.

Mr. MCGEER: That may be so.

The CHAIRMAN: Order.

Mr. MCGEER: But they are doing that here. I mean, you will agree with the proposition—

The CHAIRMAN: I suggest that we continue with the examination.

Mr. MCGEER: You will agree with the proposition that, where you create money values out of something which is less valuable than the money value that is given to it, the first issuer of that money takes a profit?

Mr. TOWERS: Yes, that is true.

Mr. MCGEER: Yes, that is true. I mean to say there is no question about that. As a matter of fact, it comes back to this proposition, does it not, Mr. Towers—as you stated before—that money is created by the laws of parliament?

Mr. TOWERS: Yes; and those laws, of course, will overcome anything except the lack of confidence of the people.

Mr. MCGEER: Absolutely. So long as you do not bring your issue of that kind of money to the point of disrupting the going concern activity of the state through the inflation of wages and prices, and the depreciation of money values, that currency is as safe and as sound as any other currency?

Mr. TOWERS: Yes.

Mr. MCGEER: I do not want to go any further than is necessary, but if I might summarize that proposition, I should like to. We, as a silver-producing country, have one possible field of developing a costless currency to the state?

Mr. TOWERS: For the reason which I have already expressed, I could not answer that question in the affirmative.

Mr. MCGEER: Why can you not?

Mr. TOWERS: Because I do not agree with the proposition.

Mr. MCGEER: You say that is not a sound way of doing it?

Mr. TOWERS: I say it is not a costless way.

[Mr. Graham Ford Towers.]

Mr. McGeer: I beg your pardon?

Mr. Towers: I say that it is not a costless way.

Mr. McGeer: It is not a costless way?

Mr. Towers: No.

Mr. McGeer: If I buy $9,000,000 worth of silver and convert it into, say, $35,000,000 of money, what does it cost me?

Mr. Towers: You have tied up your $9,000,000.

Mr. McGeer: I beg your pardon?

Mr. Towers: You have tied up your $9,000,000 in silver.

Mr. McGeer: But can I not use a portion of that $35,000,000 of money to liquidate my liability to purchase the silver?

Mr. Towers: I assume that you have paid for the silver in the first instance. I shall put it another way, that you have a cash asset there of $9,000,000 in silver.

Mr. McGeer: Yes?

Mr. Towers: I was putting this on the basis of silver certificates, as a matter of fact, so I have gone off the track a bit there. The proposition as you put it, that there is $27,000,000—

Mr. McGeer: $22,000,000.

Mr. Towers: A $24,000,000, shall we say—nine from thirty-five, $24,000,000—surplus there.

Mr. McGeer: $26,000,000.

Mr. Towers: Yes, $26,000,000.

Mr. McGeer: There is no question about being able to liquidate the silver purchase liability with the silver money that is created.

Mr. Towers: It still remains true, of course, that it can be done more cheaply with gold.

Mr. McGeer: Let us deal with the proposition that I am putting. There would be no cost to the state to create $35,000,000 worth of silver, if we purchased the silver at the rate of 27 cents to the dollar, would there? There could not be.

Mr. Towers: Mr. McGeer, if I were asked to say, in another committee, whether it was advisable for the government to accept a tender for certain supplies and that tender was $40,000, as compared with accepting another tender at $30,000, all other things being equal, I should have great difficulty in saying that the $40,000 proposition was the best.

Mr. McGeer: I agree with you that there are other better ways, probably, of creating currency to pay pensions and to meet going concern obligations than this. But I am dealing with silver, and we will deal with the others later on. For instance, I will give you every opportunity to deal with that when I come to deal with your chartered bank currency.

Mr. Towers: I understand.

Mr. McGeer: But what I want from you, if I can get it, is an acknowledgment that by using our silver reserves in Canada we can provide a currency which is perfectly good for meeting such domestic obligations as pensions and the like, and which is not going to be a direct burden to the taxpayer.

Mr. Towers: If the policy in respect to issuing it is just as prudent as it would be in the use of any other form of currency, and if expense is no consideration to the government, the answer is "yes." But those are two most important qualifications.

Mr. McGeer: What do you say—if expense is no consideration?

Mr. Towers: If expense is no consideration to the government. In other words, if they prefer a more expensive way of doing it to a cheaper way.

Mr. McGeer: We will come to that on one bill that is before the house at the moment. You will agree with me, will you not, that armament programs are the most burdensome of all programs on the taxpayer?

Mr. Towers: It depends, of course, on their size.

Mr. McGeer: My reason for saying that is that armaments are never self-liquidating, in a money sense, are they?

Mr. Towers: No; nor is relief, I am sorry to say.

An hon. Member: Nor are pensions.

Mr. McGeer: I am not so sure about that. In any event, a great many of these armaments are never used. A great many of them go into obsolescence, and a great many of them are scrapped. We are going to put forward a program of armament in Canada, as you have seen by the legislation, and it is provided that we are going to borrow the money for that armament program at 3 per cent. You know that.

Mr. Towers: I cannot say that I recall the reference to the interest rate.

Mr. McGeer: It is before the house.

Mr. Towers: The interest rate is the part that I do not recall.

Mr. McGeer: I put it to you, would it not be cheaper to finance that armament program with the issue of a domestic currency on our silver bullion than it would be to borrow it at 3 per cent?

Mr. Towers: No. It would cost the people as a whole more in the end.

Mr. McGeer: How? Tell me how it would do that? You have made that statement. I want you to give me a reason for it.

Mr. Towers: May I just, perhaps, cover that whole question of governmental expenditures, because it comes in here, I think, very appropriately. May I just read from some notes that I have?

Mr. McGeer: Yes.

Mr. Towers: The real cost of government expenditure is use of labour and equipment. That is my general proposition. The real cost of government expenditure to the country as a whole is the amount of labour and equipment required to carry out the various projects. When the question is asked if we can finance a certain government expenditure, the fundamental problem is whether we can afford to devote a certain amount of our productive resources to the projects in question. The problem of how the government can obtain the money which will give it the title to the use of labour and equipment, may present considerable technical difficulties, but it is not the fundamental problem; and the particular fiscal method by which the government may decide to acquire the money from the public has little or no effect upon the *real* cost of these projects to the country as a whole, although it may have a considerable effect upon other factors in the economy.

Mr. McGeer: There is no shortage of labour in Canada.

Mr. Landeryou: That is not an answer.

The Chairman: Order.

Mr. McGeer: We have no shortage of labour in Canada. One of the tragedies of our Canadian life, as you are aware, is the unemployment of our Canadian youth, is it not?

Mr. Towers: It is.

Mr. McGeer: We have on the one hand an abundance of idle labour. We have an abundance of materials that can be converted into serviceable wealth, have we not?

Mr. Towers: I would say that a rapid affirmative to that would not convey the proper picture, because we have a great many people employed in industries which depend on export, and in some cases foreign demand is lack-

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ing. To put those people to work profitably, if that foreign demand is perpetually lacking, involves a change of occupation and the revamping of the Canadian economy, which is a very difficult task. So that it does understate the case very greatly to say that we have all kinds of resources which we can use ourselves, on the present basis of our economy. Great changes might be necessary —possibly ones which, if they were forced upon us, would reduce the standard of living.

Mr. McGeer: I want to come back. I asked you if it would not be cheaper to issue currency on the reserve basis of silver to finance our armament program than it would be to borrow money at 3 per cent, as is contemplated in the legislation before parliament at the moment. You said that your answer would be contained in a statement that you wished to read. Have you any other reasons for that belief?

Mr. Towers: The continued issue of additional currency will eventually make the currency worthless. That has so often been proved that I wonder it is necessary for me to go into it now.

Mr. McGeer: No; because I asked you where that saturation point was and you told me that unless your issue of currency went so far as to bring about a disruption, through inflation, of prices and wages, there would be no disaster.

Mr. Towers: That is true; and, of course, it is on that theory, perhaps, that we have taken such great steps in that direction in the course of the last few years. It would be beyond the capacity of any person to say exactly thus far and no further. We have gone a very long way already. Possibly we are getting into dangerous ground. I do not know. It might go a little further. It depends on circumstances. But that it can go on indefinitely, of course, would be quite out of the question.

Mr. Landeryou: Would you allow a question?

Mr. McGeer: Will you just let me get this? There is just one other thing. I think probably the selection of the financing of the armament program was not probably as good an example as some others that I should like to draw to your attention. For instance, you are aware of the international trading situation generally, I take it, in your position?

Mr. Towers: Yes.

Mr. McGeer: And you are aware of certain trends in the tourist trade of the world, which has now become an important item in international trade?

Mr. Towers: Yes.

Mr. McGeer: You are aware, are you not, that since 1929 the trend of tourist trade from the United States has been to fall from European expenditure and to maintain itself from the United States into Canada?

Mr. Towers: Yes.

Mr. McGeer: And that to-day Canada's receipts from American tourist trade are greater than the receipts of Europe from the tourist trade?

Mr. Towers: I do not recall the exact figures.

Mr. McGeer: You will find that in a document which I have no doubt you are thoroughly familiar with, the League of Nations balance of payments statement, where they review that statement and review it as of importance.

Mr. Towers: Yes.

Mr. McGeer: The changing trend not only in international trade but in international finance. Now, it is of the utmost importance to us to increase wherever we can our sale of goods and services abroad. Is that no right?

Mr. Towers: Yes, indeed.

Mr. McGeer: We are faced with a very serious situation on the export of wheat. Everyone knows that. Now, let me suggest to you that we can maintain a tourist development program with domestic currency, because we would need to import very, very little to build highways and develop these things which are tourist attractions. You will agree with that?

Mr. Towers: I think it is very desirable to do what we can, yes.

Mr. McGeer: I think you will also agree with me, knowing Canada as you do, that our comparative position with that of the United States in highways and general attractions is considerably below the standard of our neighbours to the south?

Mr. Towers: Mr. McGeer, as a patriotic Canadian, I would say in highways in certain cases, not other attractions.

Mr. McGeer: I am thinking of the development in the states of Maine, Florida, California, and the world's fair in New York—all these things.

Mr. Towers: I would expect to hear from some representative of the maritime provinces at any moment.

Mr. McGeer: Yes, but I have been all over the maritime provinces with that view in mind, studying not only the tourist trade but their marvellous scenery.

Mr. Hill: You are quite right. Their roads are better than any of the by-ways in the States.

Mr. McGeer: I am thinking of the main highways.

Mr. Hill: The main highways are perfect.

Mr. McGeer: I went around the Cabot trail and I would say they would need to do a little more work there. I was around Gaspe peninsula and I would think there is a good deal to do there. In any event, we can do certain things to build up Canada's international trade and to build up our Canadian tourist trade.

Mr. Towers: Yes.

Mr. McGeer: And if we put a costless currency into circulation to put our unemployed to work on Canadian materials, building highways, we would secure through that medium of development, Canadian assets without directly increasing the burden to the taxpayer.

Mr. Towers: As you say, the question was asked in respect of armaments, and now in respect of a different form of government expenditure.

Mr. McGeer: More domestic. I agree in an armament program imports of materials do play a substantial part.

Mr. Towers: Yes, of course they do, in any spending program.

Mr. McGeer: Not so much in the development of highways and tourist traffic.

Mr. Towers: There may be a higher percentage of domestic material and labour there, yes. I wonder if I might ask this: may I have the privilege of putting down in black and white the answer to the main underlying question? Would it not be better to finance government expenditure by the issue of currency? That really is the underlying question.

Mr. McGeer: Not at the moment. I will come to that later. I am dealing now with silver production, because I have in mind the silver miner and the silver industry as an important industry which produces lead, zinc, and other materials.

Mr. Towers: Perhaps, then, the question would be this: would it not be best to take care of government expenditure by issuing money and put that money on a silver backing in preference to some other kind?

Mr. McGeer: No, the question is this: can we not use our silver production as a basis for domestic currency and finance these kinds of developments more cheaply than we can by borrowing at an interest rate?

[Mr. Graham Ford Towers.]

Mr. TOWERS: I think that is the question that I did suggest. I would say the two things were the same.

Mr. VIEN: I was trying to find a difference; I cannot.

Mr. TOWERS: If I might perhaps put down in black and white any humble opinion that I may be able to express on the subject and make it available at a subsequent meeting that would certainly be best so far as I am concerned. I will put in there anything that I can think of putting in, and then my knowledge will be exhausted.

Mr. McGEER: Well, now, Mr. Towers, there is one other feature. I am thinking of the coming Royal visit. The cost to Canada will be some substantial item in regard to a visit of that kind. It is bound to cost a considerable sum of money. It might cost half a million or a million dollars. You will agree with that?

Mr. TOWERS: I think the finance department would have to answer that.

Mr. McGEER: In any event, let us assume that we had taken the silver bullion you had and converted it into commemoration silver dollars. How many of these dollars do you think would have been taken out of circulation as souvenirs?

Mr. TOWERS: My understanding is the government is going to gain the maximum profit possible by making these dollars available to anyone who wants them.

Mr. McGEER: As a matter of fact, if enough silver dollars minted at 27 cents cost were taken out as souvenirs at a dollar value, we will say, by American tourists, the cost of that to us could be completely converted into a profit.

Mr. TOWERS: Perhaps that might happen.

Mr. McGEER: As a matter of fact we did have on the coronation of George VI a commemorative silver dollar minted. It was the only silver dollar ever minted in Canada, was it not?

Mr. TOWERS: I do not recall.

Mr. McGEER: You will agree that practically all the coins were taken out of circulation?

Mr. TOWERS: I do.

Mr. McGEER: And do you agree that considerably more than were minted would have gone out of circulation had they been available?

Mr. TOWERS: That I do not know.

Mr. McGEER: Let me put this to you: there will be possibly at least five millions of American tourists, old Britishers living in the United States, who will visit Canada across the dominion to see the King and Queen of the United Kingdom on this historic occasion.

Mr. TOWERS: Yes, I hope so.

Mr. McGEER: Assuming that for souvenir purposes these visitors take on the average $2; that would be a total of $10,000,000, would it not?

Mr. TOWERS: Yes.

Mr. McGEER: And the cost to the government of putting that $10,000,000 of silver into circulation would be $2,700,000?

Mr. TOWERS: Yes.

Mr. McGEER: And the government would make a profit of $7,300,000.

Mr. TOWERS: Is it not the intention of the government to do just that thing? It is a merchandising proposition. I have no doubt the mint will work night and day to supply the demand.

Mr. McGEER: Yes. You say it is a merchandising proposition.

Mr. Towers: Yes.

Mr. McGeer: What is the difference in merchandising silver dollars as souvenirs and merchandising silver dollars to secure tourist roads?

Mr. Towers: As souvenirs they are sold as souvenirs, not as money, and they are taken out of circulation. There is no—

Mr. McGeer: Is not the process of taking them out of circulation and putting them into circulation exactly the same?

Mr. Towers: I would call them a souvenir instead of a silver dollar.

Mr. McGeer: No American tourist can get one of these silver dollars unless he changes an American silver dollar for it, can he?

Mr. Towers: I do not see the point.

Mr. McGeer: To get a Canadian silver dollar you must buy it.

Mr. Towers: Yes.

Mr. McGeer: And you must pay for that money with goods and services.

Mr. Towers: He will pay, in the first instance, a dollar for the souvenir.

Mr. McGeer: Yes; but if a Canadian labourer goes to work to build a highway, does not he purchase with his labour the same silver dollar?

Mr. Towers: Or any other form of currency.

Mr. Macdonald: For resale.

Mr. McGeer: He purchases that with his labour so that he can go and use it to purchase a pair of boots.

Mr. Towers: That is the difference.

Mr. Macdonald: You cannot do that with a souvenir.

Mr. McGeer: The souvenir man takes it out of circulation, but it would be much better if it were struck for building roads and buying shoes and kept on in circulation.

Mr. Landeryou: Hear, hear!

Mr. McGeer: In any event, there are these amounts of silver currency available, which we are not employing to-day, quite apart from the reason why we are not employing them. That is correct, is it not?

Mr. Towers: I do not think it is apropos, Mr. McGeer. I think it is all a question of the total quantity of money.

Mr. McGeer: I know; but quite apart from the reasons, there are these sources of money supply which, whether it be from policy or because it is not advisable or because it would not work out in the end, we are not using.

Mr. Towers: There is no limit to the creation of money.

Mr. McGeer: Now we come to another form of currency which you referred to in your statement to-day, that is chartered bank money; I mean the issue of chartered bank money.

Mr. Towers: Notes.

Mr. McGeer: Yes, chartered bank notes. That is a power which is given to the chartered banks of Canada under the Bank Act, is it not?

Mr. Towers: Yes.

Mr. McGeer: Am I correct in stating that our Bank Act provides in the first instance that each bank may issue its own bank note currency up to the value of its paid up capital?

Mr. Towers: Yes, that was the law.

Mr. McGeer: That was the law originally.

Mr. Vien: It is now 80 per cent.

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Mr. TOWERS: Eighty per cent.

Mr. McGEER: What were the limitations other than the paid up capital, do you recall?

Mr. TOWERS: That the notes should be the first charge on the assets of the particular bank; that five per cent should be maintained with the Minister of Finance in the circulation redemption fund; that notes are not legal tender and must be taken in by the bank in exchange—

Mr. McGEER: Must be accepted as legal tender by the bank itself?

Mr. TOWERS: The bank must give legal tender in exchange for them at appropriate points. I do not recall any other provision at the moment.

Mr. McGEER: The bank must accept them in payment for their own debts?

Mr. TOWERS: And the double liability on the shares.

Mr. McGEER: The cost to the bank for the issue of that type of money up to the value of its paid up capital was a five per cent reserve of cash?

Mr. TOWERS: A 5 per cent reserve in the circulation redemption fund. They would also have to maintain a certain reserve of legal tender in their tills in connection with outstanding circulation.

Mr. McGEER: Ten per cent?

Mr. TOWERS: Ten per cent.

Mr. McGEER: As a matter of fact under our present act it is 5 per cent?

Mr. TOWERS: That is the legal minimum, but, of course, 10 per cent is maintained.

Mr. McGEER: Our parliament has enacted that they can issue on a 5 per cent reserve.

Mr. TOWERS: I should imagine that the banks would never go to that level, of course.

Mr. McGEER: But quite apart from what was in the mind of parliament, what they said in the act was that they could do it up to 5 per cent reserve?

Mr. TOWERS: They said they would not be fined unless it got to a 5 per cent reserve. I do not think the minimum reserve properly should be taken as encouraging people to go to the minimum.

Mr. McGEER: Parliament said you could issue that money on a 5 per cent reserve of cash.

Mr. TOWERS: Yes.

Mr. McGEER: Is it not inclusive of the other reserve that you spoke of a minute ago; that is the reserve of cash now, is it not?

Mr. TOWERS: I do not quite understand that.

Mr. McGEER: What you said was that they had a 5 per cent circulation fund and 10 per cent reserve of cash under the old system?

Mr. TOWERS: The law, in referring to cash reserves only refers to cash reserves against Canadian deposits; but in fact a bank would also consider its notes as being liabilities, naturally, so it would, although not bound to do so by law, accept—

Mr. McGEER: Perhaps I can shorten the question. Am I right in saying they would only need one reserve now, and do not need the circulation fund as well?

Mr. TOWERS: By law they have only a circulation fund now.

Mr. McGEER: Five per cent?

Mr. TOWERS: Yes.

Mr. McGEER: So that by law the cost of issuing that money to the banks is now 5 per cent in the form of cash reserve and the cost of printing the paper?

Mr. TOWERS: And the 1 per cent tax which they pay to the government, yes.

Mr. McGEER: So that with five dollars of cash a Canadian bank can issue a form of money that does function as money in the dominion of Canada; is that correct?

Mr. TOWERS: Yes, and

Mr. McGEER: To the value of $100?

Mr. TOWERS: Incidentally, at the same time, having that currency outstanding costs them more than if they had it in the form of deposits. It costs them about one and three-quarters per cent per annum.

Mr. McGEER: Mr. Mariner Eccles, chairman of the Federal Reserve Board of the United States, made a study of the cost of servicing book-keeping entry money, and the paper systems; he found that the book-keeping entry system was cheaper than the other system.

Mr. TUCKER: Mr. Towers, does the figure you gave a moment ago include tax?

Mr. TOWERS: Including tax.

Mr. McGEER: What I want to get at is this. We are dealing with bank money which we have in circulation to-day. I think there is $90,000,000 of it.

Mr. TOWERS: Approximately.

Mr. McGEER: In circulation?

Mr. TOWERS: $90,000,000.

Mr. McGEER: Now, am I right in saying this, the chartered banks of Canada can with that form of money purchase securities?

Mr. TOWERS: They can, in the first instance, of course, but unless there is a demand for their circulation which results in a certain amount of circulation being outstanding—the notes will come right back to them, and have to be paid in some other form.

Mr. McGEER: As a matter of fact, take the municipality doing business with one of our chartered banks. Can a chartered bank take that sort of money and purchase municipal bonds.

Mr. TOWERS: So long as people are satisfied that the money is good, and they will only be satisfied so long as the bank is solvent.

Mr. McGEER: But they are solvent. We are satisfied with the Bank of Montreal.

Mr. TOWERS: Yes.

Mr. McGEER: And the Bank of Montreal with that kind of money can purchase municipal bonds?

Mr. TOWERS: Yes.

Mr. McGEER: And provincial and dominion bonds, no question about that?

Mr. TOWERS: Within certain limitations in regard to quantity, yes. They can purchase as much as their reserves will permit.

Mr. McGEER: What I want to point out to you is this: the only reason why the banks can use that kind of money is that parliament has given them that power.

Mr. TOWERS: Parliament has given them the power; the people have given them the confidence.

Mr. McGEER: But without the power from parliament they could not get started at it.

Mr. TOWERS: They need both these things.

Mr. McGEER: Nobody without power from parliament can do it, can they?

[Mr. Graham Ford Towers.]

Mr. TOWERS: No.

Mr. MCGEER: Then, what we have done in parliament is to give to a bank the power to print money.

Mr. TOWERS: Within certain limitations.

Mr. MCGEER: At a cost of 5 per cent plus a 1 per cent tax, plus the cost of printing, we have given them that power, have we not?

Mr. TOWERS: Within certain limitations, yes.

Mr. TUCKER: It does not cost them 5 per cent; they have to maintain that. It is not a cost.

Mr. MCGEER: And they have in circulation and have used that kind of money up to $90,000,000?

Mr. TOWERS: Yes.

Mr. MCGEER: Now, the government prints bonds, does it not?

Mr. TOWERS: Yes.

Mr. MCGEER: And issues them on an interest bearing basis and exchanges them for that kind of money, does it not?

Mr. TOWERS: Only to a certain extent. The bulk of the bonds are held by the people, not by the banks.

Mr. TUCKER: What is the proportion?

Mr. MCGEER: We will come to that later. What I want to get is this: that kind of money is being used continuously in the building of roads and in exchange for goods and services in Canada, is it not?

Mr. TOWERS: You mean new money arising from the sale of government bonds to banks?

Mr. MCGEER: Yes, I mean banknote currency.

Mr. TOWERS: Banknote currency is revolving, but not going up all the time.

Mr. MCGEER: No, as a matter of fact it is going down; but what I am pointing out is, to the extent of $90,000,000 we have bank money that is issued at a cost to the banks of a nominal sum.

Mr. TOWERS: I think it is more than nominal; it is about $1\frac{3}{4}$ per cent per annum.

Mr. MCGEER: That money in the light of the practice of Canada is full purchasing power for the banks?

Mr. TOWERS: Yes.

Mr. MCGEER: Well, do you suggest for one minute that the privilege—

Mr. VIEN: It might be interesting to hear the rest of Mr. Towers' answer.

Mr. TOWERS: It is full purchasing power for the bank, at the cost of the bank assuming the liability. I have always felt there was an absolutely fatal misunderstanding in regard to the banking system as a whole, and that fatal misunderstanding arises from the thought that deposits are assets, and that notes are assets. Now, so long as that thought is even in the background of people's minds, any discussion of banking gets on a topsy-turvy basis, because they are liabilities. Any member of this committee can use a piece of paper and put his name on it, and if he is regarded as solvent and has credit, he can use it for the purpose that you mention.

Mr. MCGEER: What I want to get at is this: let me give you a concrete example and see if you will agree with me. I go into the bank with a $100 dominion government bond and I sell it to the Bank of Montreal, we will say, and the Bank of Montreal gives me $100 in their money. That is a transaction. That may be completed—

Mr. TOWERS: That is their liability to you.

Mr. McGeer: Then I put that \$100 back into the Bank of Montreal on deposit with them.

Mr. Towers: Yes.

Mr. McGeer: And it becomes the bank's money, does it not?

Mr. Towers: Well, that is the point I am making. I am very glad you brought it up, because there is the whole fundamental trouble. You are referring to a deposit as an asset, and therefore from then on everything is topsy-turvy, because in fact the deposit is a liability.

Mr. McGeer: But, as a matter of fact, the bank takes charge of that money that I deposit and can and does use it as its own money.

Mr. Towers: No, it does not; it has bought a bond from you and given you its note. That note is its liability. You deposit the note and it is set up as an account in the books in your favour, a new account for \$100. It is not then an asset; it is the bank's liability and against that liability it holds for your account a dominion government bond that you sold to it, and that is the first and that is the last. There is no further move on the part of the bank. You intimate that every deposit with a bank is an asset from the banking point of view. People have been assuming that when a bank creates a deposit that it is an asset of the bank. On the contrary the bank goes through the painful process of creating a liability, which any of us can do within our power; and it has to administer the assets against those created liabilities in a form which will maintain the confidence of the people and its own solvency.

Mr. McGeer: I quite agree with you and I have no fault to find with it; but what I am pointing out is the process of dealing with this \$100 bond, and what I say to you is, when I hand it to the bank the bank gives me in exchange for an interest bearing piece of paper a non-interest bearing piece of paper.

Mr. Towers: Voluntarily.

Mr. McGeer: But we do it. Now, I put that money back on deposit in the bank, and another man comes along with a \$100 bond, and it is within the power of the bank to use that same \$100 that I have deposited to buy another bond.

Mr. Towers: No, unfortunately you cannot use your liability to buy anything. The deposit you have with the bank is its liability. It cannot use its liabilities to buy something.

Mr. McGeer: The liability is being transferred from that money altogether. The liability has been transferred from that money into an entry in the books of the bank which makes me a depositor and that money becomes free to use again.

Mr. Towers: I am sorry, Mr. McGeer, that money is the bank's own note which is the bank's liability. When you put that back in the bank it does not become an asset of the bank.

Mr. McGeer: Is not this a fact: out of a comparatively small amount of money in bank deposits, all told less than three and a half billions, we do business in Canada up to the value of thirty-five thousand million dollars a year?

Mr. Towers: That is through the people using their deposits in the banks.

Mr. McGeer: And through the circulation of this money over and over again.

Mr. Towers: Amongst these people, yes.

Mr. McGeer: But in any event, it is on that process that the banks build their deposits.

Mr. Towers: No.

[Mr. Graham Ford Towers.]

Mr. McGeer: In part?

Mr. Towers: No, not by that process, on the turnover of deposits amongst the people. When a bank acquires an asset in the form of a loan or a government bond, other things being equal, its deposits will increase by the same amount, hence that word which most bankers detest, the "creation" of deposits; but as I pointed out, when they create these deposits, they are not creating assets, they are creating liabilities, and their liabilities cannot exceed their assets. They buy government bonds or make loans to the tune of $10,000,000 if their cash reserves permit—if their cash ratio permits, I should say—and they have then on the asset side $10,000,000, but they have on the liability side $10,000,000 in deposits. These deposits, of course, move very rapidly out of the hands of people to whom they first came. They are paid out in various forms; they circulate; that is the start and the finish of the $10,000,000; on one side $10,000,000 and on the other side $10,000,000. The bank does not just go and use $10,000,000 of deposits to buy $10,000,000 of fresh assets, because you cannot buy something with one of your own liabilities.

Mr. McGeer: I think we will probably come to that when I deal with some of the annual statements of the banks.

Mr. Towers: Yes, that is the best way of doing it.

Mr. McGeer: We will deal with that, because I think you will find that this process pyramiding deposits obtains because the money comes back a number of times, and the bank can use the same money in purchasing assets. I quite appreciate there are other ways of building up the process.

Mr. Towers: That, of course, is the fundamental misconception. If we could correct that it would be very helpful.

Mr. McGeer: I want to say this to you: that process of issuing money which is the bank's buying power is much cheaper than the process of issuing national currency that I suggested, with a silver reserve, is it not?

Mr. Towers: No, it is more expensive.

Mr. McGeer: How do you make that out?

Mr. Towers: It costs the banks—no figures along these lines have ever been published, so what I am saying is guess work, but it is a guess which comes within a fraction of being correct, I am sure—about 3 per cent per annum, or perhaps a shade more, to operate, of which about 2 per cent represents their expenses and about 1 per cent represents the interest that they pay on deposits on the average. Some years ago the cost was a good deal higher, but because of the things that have happened in the last few years, and particularly the easy money policy of this country, the banks have been forced to reduce the rate of interest and economize in other ways. As it is, however, it costs them about 3 per cent per annum—on their total assets, I should say; so that a bank with a hundred millions assets will find it costs it about $3,000,000 before dividends or depreciation.

Mr. McGeer: What I was dealing with, Mr. Towers, was not the cost to the banks doing business, but their banknote currency and their bank deposits, because the bulk of the business of the banks is done with a portion of its current deposits, is it not?

Mr. Towers: I find it very difficult to answer that question, because I cannot get it related to the facts. I am sorry, I may be stupid.

Mr. Tucker: Does the 3 per cent include losses and bad debts?

Mr. Towers: No, no losses, no taxes and no dividends, and I think I am fairly close to being right in the cost I give.

Mr. Vien: It would be purely operating expenses?

Mr. Towers: Yes.

Mr. McGEER: What I was dealing with was the cost of the issue of this money to the banks; that is, the $90,000,000 worth of paper currency, and the question I put to you was, the issue of the currency would be cheaper to the banks than the cost of issuing a silver currency on a 27-cent dollar would be to the government?

Mr. TOWERS: Is the cost to the banks less in issuing their currency than a silver dollar would be to the government? That is a very difficult question to answer because I do not see its application.

Mr. McGEER: I am perfectly willing that you should leave it there, because to me I think that the question is obvious. Where it cost the government 27 cents to create a dollar, and the banks get the privilege of creating it at the cost of 5 cents, it seems to me to be elementary that the cost to the bank is much cheaper than the cost to the government would be. I do not know whether you will agree with that.

Mr. TOWERS: The question of taxation on the banks enters into it as well, of course.

Mr. McGEER: That is only 1 per cent. In any event, that is not important. There are two forms of currency that we have. Now I come to bank deposit currency. Is it generally accepted now in Canada, in the United States, and in countries which have adopted modern banking practice, that approximately 95 per cent or more of the total monetary transactions of the nation are carried on by cheques?

Mr. TOWERS: I dare say that is the figure.

Mr. McGEER: So that the cheque transferring bank deposits has become our pre-eminent medium of exchange?

Mr. TOWERS: The bank deposits themselves are. The cheque is the implement for the transfer, of course.

Mr. McGEER: I mean to say it is the cheque that makes the transfer possible?

Mr. TOWERS: Or any other form of order which transfers, yes.

Mr. McGEER: I am talking about what we generally use in the going concern activities of the people and the nation.

Mr. TOWERS: Yes. I would object to the use of "cheque money," for that implies that the cheques remain outstanding. The deposits are the money and they turn over.

Mr. McGEER: I mean to say the deposit in the banker's book is the actual money.

Mr. TOWERS: Yes.

Mr. McGEER: That is, it is not money; but it is the effective substitute for money which modern practice in banking and commerce has developed?

Mr. TOWERS: Exactly.

Mr. McGEER: So that 95 per cent of our monetary transactions are now carried on by using a medium which is an efficient and effective substitute for money?

Mr. TOWERS: Which, in fact, is money for the purpose of our discussion.

Mr. McGEER: Therefore, those who are empowered to issue bank deposits as a substitute for money are the ones who control the volume of the medium of exchange in circulation?

Mr. TOWERS: No, they do not; because their powers to do it are limited by legislation.

Mr. McGEER: Within these powers of their legislation.

[Mr. Graham Ford Towers.]

Mr. TOWERS: And the amount of the cash reserve, which is determined by the Bank of Canada, determines the extent to which the chartered banks can go in the way that you mentioned.

Mr. McGEER: As a matter of fact, the fact is that 95 per cent of our monetary transactions are now maintained by the use of bank deposits. That is the fact. So that under the powers enjoyed by the banks under our laws, they do issue 95 per cent of the medium of exchange, or they issue the medium of exchange which transacts 95 per cent of the business of the people and the state.

Mr. TOWERS: There is a point I should like to make there. The two and a half billion dollars of Canadian deposits do not belong to the banks. They belong to the people who use them and transfer them as they wish. As a matter of fact, the speed with which they transfer them is also very important, in a monetary sense—the velocity of circulation. Over that the banks have no control. In regard to the total quantity of deposits, that depends on banking action, which in turn depends on our action, which in turn depends on the parliament of Canada. Once the deposit is in the hands of the individual, it is his property. He deals with it as he wishes to do.

Mr. McGEER: Here is what I am getting at. I am dealing with the question of the issue of money. Our subsidiary coin is issued by the state. There is no question about that, is there?

Mr. TOWERS: That is right.

Mr. McGEER: Our bank note currency is issued by the banks under the powers which the bank laws give them?

Mr. TOWERS: And by the Bank of Canada, yes.

Mr. McGEER: We are dealing with the chartered banks now.

Mr. TOWERS: Yes.

Mr. McGEER: The Bank of Canada has not anything to do with the issue of the chartered banks' notes.

Mr. TOWERS: No. Although, of course, our own circulation is larger than that of the banks.

Mr. McGEER: I am coming to that later on, because I think that is most important. But the other form of money—that is, the bank deposit money—is issued by the banks.

Mr. TOWERS: Is placed in the hands of the people as a result of bank activities, yes; and so long as the people have confidence in the banks—

Mr. McGEER: I am not talking about the use of money.

The CHAIRMAN: Order. Will you allow Mr. Towers to finish?

Mr. McGEER: Yes.

Mr. TOWERS: Once it is there, it is the property of the depositors. I do fear that somewhere in the discussion we are coming back to the thought that those deposits are the property of the banks.

Mr. McGEER: No. I have not that idea at all, and I am not dealing with that phase of it. That is a phase which we will deal with later on, I hope. But I am dealing with the power to issue that form of money. That is a privilege of the chartered banks.

Mr. TOWERS: That has been banking for centuries, yes.

Mr. McGEER: Well, that is a privilege of the chartered banks.

Mr. TOWERS: Yes, exactly.

Mr. McGEER: It is a right which they have, subject to all the restrictions and limitations of the law.

Mr. TOWERS: Yes.

Mr. McGEER: Am I right in saying that a bank deposit can be created in this way? A banker can purchase a dominion government bond by accepting from the government, we will say, a bond for $1,000 and giving to the government a deposit in the bank of $1,000?

Mr. TOWERS: Yes.

Mr. McGEER: When a bank takes a bond from the government, what the government receives is a credit entry in the banker's book showing the banker as a debtor to the government to the value of $1,000?

Mr. TOWERS: Yes.

Mr. McGEER: And in law all that the bank has to hold in the way of cash to issue that deposit liability is 5 per cent?

Mr. TOWERS: Yes.

Mr. McGEER: You are aware that our banks now hold one billion four hundred odd million dollars of municipal, provincial and dominion securities?

Mr. TOWERS: Yes.

Mr. McGEER: That form of money costs less to issue than chartered bank notes or subsidiary coin?

Mr. TOWERS: I am sorry. It costs more; 3 per cent.

Mr. McGEER: What is that?

Mr. TOWERS: Approximately 3 per cent.

Mr. McGEER: How do you make up that 3 per cent?

Mr. TOWERS: Because 3 per cent is the cost of operation of the banks. *If* you are in the business, your costs of operation are there.

Mr. McGEER: I know; but the cost of operation includes a great many other things besides the issue of money.

Mr. TOWERS: And many other things have to be done in conjunction with the issue of money, to remain in the banking business.

Mr. McGEER: Yes. But that 3 per cent is paid for by the people who borrow money from the banks at 6 per cent and 7 per cent, is it not?

Mr. TOWERS: On the costs side, the banks have to meet their general cost of operation, wages and so forth, and the cost of interest to their depositors. I am neglecting for the moment, depreciation, taxes, dividends, and so forth. Their costs, therefore, shall we say, are three millions for each one hundred of millions of assets. Naturally they have revenues on the other side, some of which come from interest from borrowers, some of which come from government securities and some of which come from the other minor services that they render. They have to hope that on the revenue side this will bring them in a little more than an average of 3 per cent on their total assets. It does bring them in a fraction more than that, yes.

Mr. McGEER: What I am dealing with is the cost of issuing that form of money. That may be one item of cost in the bank's operations, but included in that 3 per cent cost there are a great many other operations, are there not?

Mr. TOWERS: Not that I know of.

Mr. McGEER: For instance, there are all the costs of servicing the depositors.

Mr. TOWERS: Yes. But as you say, they have the privilege of creating deposits. That privilege naturally carries the privilege of servicing the depositors, and that carries its costs.

Mr. McGEER: Yes; but in the cost of 3 per cent is included all other things besides the cost of issuing the deposits?

Mr. TOWERS: No. I would say that they are part of the cost of being in the banking business. If you were not in the business, you could not issue the deposits.

[Mr. Graham Ford Towers.]

Mr. McGEER: The question I put to you is this. The cost of issuing bank deposit money—and I am dealing with the cost of issuing that money, not of servicing it and all the rest of it—is less than the cost of issuing paper money?

Mr. TOWERS: I cannot agree with that, Mr. McGeer, because I cannot picture a situation where a bank issues a deposit and then suddenly disappears into thin air into another country and says, "We will not service it."

Mr. McGEER: Did you not tell me a few minutes ago that the cost of bank deposit money was proven, but the investigation of the Federal Reserve system, to be less than the cost of issuing paper money? We had that on record a minute ago.

Mr. TOWERS: You said that Mr. Eccles told you that. Perhaps I accepted that without sufficient scrutiny. You said that was the result of an investigation he had made, and he had told you.

Mr. McGEER: He did not tell me that. It was told to the American Congress.

Mr. TOWERS: I thought he told you.

Mr. McGEER: No. It was told to the American Congress which was making the enquiry.

Mr. TOWER: My proper answer would have been, "I am unaware of what he said".

Mr. McGEER: Where do you get your information?

Mr. TOWERS: My information of Canada?

Mr. McGEER: On the difference in the costs of issuing paper money and bank deposit money.

Mr. TOWERS: My information in respect to the general operation of the banks in Canada, as I say, comes from no published statistics. It is a guess, but I believe it is very close to being correct.

Mr. McGEER: The cost of issuing that money, you say, is 3 per cent?

Mr. TOWERS: Approximately, I guess.

Mr. McGEER: What are the banks purchasing short term government securities at to-day?

Mr. TOWERS: Oh, it would range from 1, $1\frac{1}{2}$ to 2 per cent.

Mr. McGEER: Do you mean to suggest that our banks are purchasing those government securities at a loss of anywhere from 1 to $2\frac{1}{2}$ per cent, because they are down as low as $\frac{1}{2}$ of 1 per cent, are they not?

Mr. TOWERS: If on particular transactions they apply the test of 3 per cent, yes, they are purchasing them at a loss. Of course, they have to regard their whole asset picture and look at the average of their earnings on all things. They have a certain amount of their assets in cash—a total loss, no earnings. They have some in short term government securities, those do not average an amount equal to their general expenses. Then they have some slightly longer term government securities, and they have loans, in the hope that on the average of all those assets they will earn a little more that their costs.

Mr. McGEER: You told us in your statement or in your evidence the other day that there were three ways by which moneys could be put into circulation—by taxation, by borrowing or by discounting to increase deposits. Is that right?

Mr. TOWERS: No. I said there were three ways by which a government which wanted to spend money could obtain it. One was by taxation. The other was by borrowing the savings of the people. The third was by some form of inflation activity, either by borrowing through the operation of an easy money policy or by the actual issue of currency; the third form was, in effect, a currency creation form as distinct from form number two, which is borrowing the savings of the people.

Mr. McGeer: What I am putting to you is this. I think it is important that we should have some knowledge of the financial strength of this nation in this particular period. Is it not possible for the government to place to the credit of our banks their securities, and to have those securities converted into bank deposits which permit the government to expand its program of public expenditure?

Mr. Towers: That is a question of monetary policy; and, of course, that is what has been done to quite an extent during the last four years.

Mr. McGeer: I take it if war should come there would be a great reserve of Canadian monetary power available for the defence of this nation by the adoption of that process?

Mr. Towers: What are available for the defence of this nation are Canadian men and Canadian materials. The method by which those are put to use by the government—the method of financing—as I stated earlier, is a question of fiscal policy. But that men and materials can be created from money, no.

Mr. McGeer: But within the limits of the men and materials that are available, their use for the defence of the nation can be financed by placing at the disposal of our banks government securities, and taking in exchange for them bank deposits?

Mr. Towers: No, not beyond what you might call any reasonable limits of monetary policy. It has happened in other wars, yes, with the net result that at the close of the war we emerged with a considerably higher price level, which is perhaps inevitable; and also through undue borrowing as compared with resorting to taxation, we emerged with a certain percentage of the people having a mortgage on the rest. The war itself was paid for in men and materials each day that the war lasted.

Mr. McGeer: Mr. Towers, you no doubt are conversant with the financial resources of Canada at the commencement of the last war in 1914. You will remember, I suppose, that we had on deposit, in time and savings accounts, $1,144,000,000 and we increased those bank deposits by 1921 to $2,264,000,000?

Mr. Towers: Exactly.

Mr. McGeer: So that a considerable portion of the war financing came through the increase of Canadian bank deposits?

Mr. Towers: Yes.

Mr. McGeer: As a matter of fact, we financed our war costs pretty much by——

Mr. Landeryou: Fountain pen money.

Mr. McGeer: —by internal financing in Canada.

Mr. Towers: Yes.

Mr. McGeer: As a matter of fact, our financing both in England and in the United States, I think, practically kept on a level; one went down and the other went up a little. There was no substantial change in our international debt position, adversely, as a result of our war expenditures of 1914.

Mr. Towers: Not that I recall.

Mr. McGeer: What is that?

Mr. Towers: I think that is right.

Mr. McGeer: So that we have in that experience proved that we can increase the volume of our bank deposits to meet our national liabilities.

Mr. Towers: Provided the people pay for it, yes.

Mr. Tucker: What do you mean—in goods and services? Is that what you mean?

[Mr. Graham Ford Towers.]

Mr. TOWERS: Yes. When it is financed in that form. Really the government is not getting anything out of thin air. It is a transfer between the various sections of the population, so that at the close of the war you would have certain sections of the population owing the remainder of the population.

Mr. MCGEER: Was it not a fact that in the majority of the financing of the war the bonds issued by the dominion government carried an interest rate averaging about 5 per cent?

Mr. TOWERS: I cannot contradict. I do not know. I dare say it is not far off that.

Mr. MCGEER: Some of the bonds were issued at as high as $5\frac{1}{2}$ per cent?

Mr. TOWERS: Yes.

Mr. MCGEER: And some of those $5\frac{1}{2}$ per cent bonds were made tax free; is that right?

Mr. TOWERS: Yes.

Mr. MCGEER: And as a result of financing the war by depositing government interest-bearing bonds, the cost in interest on the moneys used to finance the war now totals more than the total volume of money actually used to pay the war cost.

Mr. TOWERS: Yes, paid to our own people. The alternative would have been to have got more from them at that time in the form of taxation.

Mr. MCGEER: Let me suggest to you that if that money had been raised at $\frac{1}{2}$ of 1 per cent, the cost to the taxpayers at large would have been just the difference that rate of interest and the rate that was paid.

Mr. TOWERS: The taxpayer, of course, is the whole country; and the money that the government pays out in interest goes to the whole country. There are factors of distribution there. There is the question of a system of taxation, a system of financing expenditures which does not cause too much wealth to gravitate in certain directions. There is the burden which may be caused through unequal distribution throughout the economy. But thinking of the economy as a whole, interest goes out to the people. The people pay the taxes.

Mr. MCGEER: But if the interest goes out to only a portion of the people—

Mr. LANDERYOU: To the banks.

Mr. MCGEER: Not necessarily the banks.

Mr. TOWERS: No; because the banks in turn distribute that to their depositors and staff.

Mr. TUCKER: There was not much interest paid to the people who fought in the war, the soldiers. I happen to know, because I was one.

Mr. MCGEER: What I want to get at is this. People with money usually buy bonds?

Mr. TOWERS: Stocks, bonds, preferred shares.

Mr. MCGEER: I mean to say that bonds are not distributed equally throughout the nation. The people of wealth are the people who own the bulk of the bonds of the nation.

Mr. TOWERS: No, I should not like to go so far as to say that. A substantial amount of bonds is held by banks on behalf of their depositors. One would have to examine the classification of deposits to gain some idea in regard to the size there. The insurance companies hold a number of bonds for their policy-holders. The balance of the bonds—roughly speaking, the great balance —is held by the public. The size of the individual holdings I do not know.

Mr. VIEN: In other words, it means that the Canadian investor invested in those bonds to the extent of his ability to do so.

Mr. TOWERS: Yes.

Mr. McGeer: I take it from that that it really does not make much difference what rate of interest we pay, because the people get the benefit of it anyway. We may as well made it 10 per cent.

Mr. Towers: It can make a material difference to the extent that there is uneven distribution. It does not make any difference to the country as a whole. But it makes a difference to the individual sections of it—that is, sections of the people.

Mr. McGeer: If these debts are all paid off, the burden of taxation would be very much less, would it not?

Mr. Towers: Yes, in the imaginary situation that you mention.

Mr. McGeer: Of course, it is impossible for you to conceive of the end of this debt-claim system which we operate under?

Mr. Towers: Oh, "never" is a long time. I should not like to express an opinion there.

Mr. McGeer: Is it possible for you to imagine any way by which we are ever going to pay the debt we have got?

Mr. Towers: As the debts of the government are an asset of the Canadian people, I do not see much point in the thing; except that, to the extent that the government thinks that the distribution of those assets of the Canadian people—which are its debt—is unsatisfactory, it may take steps to remedy that distribution in any way that lies within the legislative power; in fact, in any way, I suppose—by income tax or succession duties or any other action it cares to take.

Mr. Coldwell: Or by capital levy.

Mr. Towers: Or by capital levy, if it so wants to.

Mr. McGeer: But those things are not coming very rapidly, because we are increasing our debts, are we not?

Mr. Towers: Well, perhaps if they were coming, we ought not to be increasing them. That would be unfair, would it not?

Mr. McGeer: But we are increasing them?

Mr. Towers: Yes, we are.

Mr. McGeer: We are increasing our debts annually?

Mr. Towers: Yes.

Mr. McGeer: Provincially, municipally and federally.

Mr. Towers: Municipal on balance are going down, I am glad to say. Provincially and federally what you say is exactly right.

Mr. McGeer: But they are going down municipally by deferred maintenance, which is really not liquidating your debts?

Mr. Towers: Perhaps there are some cities which are doing much better than that.

Mr. McGeer: I want to ask you as governor of the Bank of Canada, from your knowledge and experience of war financing during the 1914 to 1918 war, what you thing would be the cost of securing money for defensive purposes under the control which the Bank of Canada now exercises?

Mr. Towers: I have no idea.

Mr. McGeer: Can you not make an estimate?

Mr. Towers: I cannot, because I do not know the situation.

Mr. McGeer: Do you think it will be necessary for us to issue $5\frac{1}{2}$ per cent tax free bonds again?

Mr. Towers: I should hope not.

Mr. McGeer: You know that we will not, do you not?

Mr. Towers: I think that would be a fair assumption, yes.

[Mr. Graham Ford Towers.]

Mr. McGeer: Yes. I think the people of this country are intelligent enough now—

Mr. Landeryou: Hear, hear.

Mr. McGeer: —to deal with that situation.

Mr. Towers: I would agree with that.

Mr. Landeryou: Hear, hear.

Mr. McGeer: And you will agree that the lower is the cost of the money that the nation gets to finance defence, the cheaper it is going to be for the taxpayer in the long run?

Mr. Towers: Yes; and the larger proportion it gets in taxation, the better it will be for the country in the long run. That gets away from paying any interest on borrowing.

Mr. McGeer: Mr. Chairman, I have a new feature that I should like to start with, and I have a statement that I should like to present to the committee. It is a comparison of the financial position in Canada in 1914, 1921, 1929 and 1938. It shows the national debt, gross funded and net; it shows the national income, the national wealth, trade, production (net value), mineral production, bank deposits, governmental revenue and governmental expenditures. I should like to have Mr. Towers have that.

The Chairman: Is it the pleasure of the committee to place that statement on the record?

Mr. Vien: I would so move.

Mr. Deachman: Would it not be better if that statement came from the Bureau of Statistics?

Mr. McGeer: I got it from there.

Mr. Deachman: I should like to have it certified.

Mr. McGeer: I can get that.

The Chairman: Is it the pleasure of the committee that Mr. Towers' statement shall be placed on the record?

Mr. Vien: Which statement?

Mr. Towers: In reply to the questions which were asked at the last meeting. There was a statement asked for then. That is what I have here.

The Chairman: It is your pleasure that it should be put in the record?

Mr. Vien: Yes. Would it cover the question of paying government expenditure by issuing more currency? Does it cover that?

Mr. Towers: It certainly is in that direction. Whether that should be elaborated on or not, I should like to decide after looking it over.

Mr. Vien: I understood Mr. Towers to tell us this morning that he would like to prepare a further statement?

Mr. Towers: Yes.

Mr. Vien: In respect to that?

Mr. Towers: Yes.

Mr. Vien: I would move, Mr. Chairman, that the statement of Mr. Towers be put on our record.

The Chairman: What is your pleasure with regard to Mr. Vien's motion?

Mr. Coldwell: Mr. McGeer said he wanted to start another line of questioning. It is one mintue to one o'clock.

Mr. Vien: Not to-day.

The Chairman: No, not to-day. What is your pleasure in regard to Mr. Vien's motion?

Mr. Hill: Certainly.

Mr. VIEN: The motion is that Mr. Towers' statement appear on our record.

Mr. TUCKER: I want to ask if Mr. Towers dealt with the question that I directed to him at the very end of the meeting last day?

Mr. TOWERS: Yes. That is in this statement.

Mr. TUCKER: There is another thing I should like to ask. I understand that you put out a statistical summary every year, do you?

Mr. TOWERS: Yes.

Mr. TUCKER: I should like to bring to the attention of this committee the situation that a statistical summary is put out of the basis on which the governor of the bank and his advisers act in regard to advising as to methods of financing. If this banking and commerce committee is going to be intelligently advised of the basis for his action or advice from time to time, it seems to me that we should have the same statistical summary provided for the members of the banking and commerce committee, at least, if not for all the members of parliament. I have felt for some time that if we are going to function efficiently as a banking and commerce committee, we should have that statistical summary. I bring that to the attention of the banking and commerce committee as a suggestion. I should like to have it, and I think it would be of value to every member of the banking and commerce committee, at least.

Mr. TOWERS: Most certainly, if that is desired.

Mr. TUCKER: I would move that it be supplied, if possible, since the beginning of the year, to every member of the committee.

Mr. TOWERS: I will see that it is put in the boxes almost immediately.

The CHAIRMAN: Shall we adjourn at the call of the chair?

The committee adjourned at 1 p.m. to meet again at the call of the chair.

APPENDIX "A"

STATEMENTS SUBMITTED BY MR. TOWERS

(a) MONETARY POLICY AND THE PRICE LEVEL

At the last meeting—on March 24th—I was requested by several members of the Committee to prepare a statement on the inter-relations of monetary policy and the Canadian price level. The statement on this subject which I propose to make this morning will in part touch on matters with which I dealt during last week's meeting, and while I have not changed the tenor of my remarks on that occasion, I believe that they may be presented in somewhat clearer relation to the subject as a whole.

PART I — THE PRICE STRUCTURE

Before discussing the inter-relations of monetary action and the price level, I would like first to speak briefly on the nature of the price structure itself, because in my opinion it is essential to a clear understanding of this subject that the fundamental inter-dependence of the price structure be kept constantly in mind.

The fact that prices are higher or lower than at some previous date is only significant of a change in economic position to the extent that it represents a change in balance within the price structure. Rapid changes in prices usually do represent a change in balance since costs are slower to adjust. Price movements over long periods, however, are usually accompanied by cost adjustments through renewals of fixed contracts and changes in productive efficiency. The conclusion follows that sharp changes in prices are bad by nature because they are disruptive, but that price movements over a period of years tend to be associated with broad adjustments throughout other phases of the economy, which may considerably lessen their net effect. It is essential when considering the effect of price changes over a considerable length of time to look beyond the mere fact of a change in price and ascertain the impact of the change on the net income of the individual, corporation, community or the country as a whole—which may be very different from the effect indicated by the change in price by itself.

PART II—MONETARY METHODS

The Committee has shown special interest in the effects which monetary policy may have on the level of prices with respect to the general level and the relationships between certain categories of prices. I now propose to discuss the two monetary methods which might be employed to effect an increase in prices—namely internal monetary expansion and exchange depreciation or a combination of the two.

Expansion of the volume of money in Canada *tends* to produce a rise in the level of prices by increasing the potential demand for goods and services. In general, however, an increase in the volume of money will increase the total amount of buying only if there has been previously an actual shortage of money. There may be important factors offsetting the effect of an increase in the volume of money, as the amount of spending is almost entirely a matter of individuals' decisions which are influenced by many other factors than the volume of money. I have omitted from consideration the type of price rise which follows the excessive issue of money when people through lack of confidence in the currency rush to convert their money holdings into goods—a situation which I am sure everyone will agree is thoroughly undesirable.

There is another important factor which limits the extent to which internal monetary expansion can effect an increase in the level of prices—namely, the importance in the Canadian price structure of export and import prices which are chiefly determined in world markets, and, as long as we maintain existing external currency alignments, are almost entirely outside the control of internal policy.

Under such conditions—i.e. exchange stability—expansion of the volume of money is likely to have small *direct* effect on the average level of commodity prices but will probably result in a lower price for money—the rate of interest—which will enable a reduction in debt charges to the extent that maturing obligations may be converted at lower interest rates—and which may increase the amount of new investment by lowering its cost—and which may also increase the amount of money being used for speculative purposes.

To the extent that the decline in interest rates is in line with a similar trend in other countries and if undesirable speculation does not ensue, the results of expanding the volume of money are likely to be favourable, but if expansion is carried too far, undoubtedly such an unfavourable internal situation will develop, that pressure on the balance of payments will result, which will force a decision as between reversing the direction of internal monetary policy and depreciating the external value of the currency which is the second of the two methods of monetary policy to which I previously referred.

Currency Depreciation

Currency depreciation ipso facto would tend to increase the prices of exports in Canadian dollars and at the same time to augument the cost of imports and foreign debt service when expressed in Canadian funds. The higher level of import and export prices would have a buoyant effect upon other price levels and ultimately lead to an adjustment of costs in line with a higher general level of prices.

The general effect of depreciation is to transfer income between various groups within the depreciating country through a rise in prices which reduces the pressure of relatively fixed internal costs such as wages and interest at the expense of wage-earning and "rentier" classes. Under certain conditions of severe maladjustments between prices and internal costs, a transfer of this nature may be desirable. It is necessary, however, to be quite sure that depreciation will chiefly benefit a majority of the people who are in real need of assistance and not impose undue burdens upon other large sections of the country.

The extent to which incomes in export industries increased following depreciation would depend upon the elasticity of demand in foreign markets for our exports and upon the domestic industrial structure. Export prices in Canadian dollar might not be increased by the full amount of depreciation, either because of an attempt to enlarge the volume of exports by selling at a lower foreign price or as a result of competition. Ability to expand our volume of exports by offering them at somewhat lower prices in foreign markets would depend upon foreign demand being responsive to lower prices and upon the willingness of our competitors to suffer a loss of market without having recourse to similar action. Actually neither of these conditions would be satified to any marked degree and Canada's ability to increase her volume of exports by competitive price cutting, distinctly limited. In certain Canadian exports industries where heavy overhead costs and surplus capacity exist, competition between individual firms, each trying to increase its output and spread fixed charges over a larger volume might lead to prices being reduced without any appreciable increase in output for the industry as a whole. In general, it would be true to say that an increase in the value of Canadian exports following depreciation would

result from a higher level of export prices in Canada rather than a larger volume of exports and the increase in export prices would be somewhat less than the full amount of depreciation. The value of Canadian exports would expand at the cost of Canada paying a correspondingly larger amount abroad for imports and debt charges and other countries would obtain our exports at somewhat lower prices in their own currencies.

Import prices in most instances would increase by the full amount of depreciation; in only a few cases is Canadian demand large enough to exercise an appreciable effect on import prices. Higher prices for industrial raw materials coupled with additional protection afforded domestic producers by currency depreciation would probably mean an advance in the prices of products fabricated from imported materials. Higher prices for imported *finished* goods would directly increase the Canadian cost of living.

The increase in the value of Canadian exports would be somewhat less than the degree of currency depreciation, but when allowance was made for the rise in prices of imported goods and goods made from imported materials and the increase in interest charges payable in foreign currencies, the net benefit by export industries would be very much less than the amount of depreciation. Any net benefit that might be retained would be temporary, existing only during the period in which other costs lagged behind the general rise in prices. Some benefit in relation to debt might be retained, but an improvement in this respect could be obtained by means of internal adjustments either of a monetary or non-monetary character.

Currency depreciation would increase the dollar value of the Canadian national income by creating a higher level of prices, but its effect upon *real* national income would depend on the degree of stimulus given to economic activity by the internal realignment of costs and prices. An increase of export income in Canadian dollars achieved at the cost of paying a correspondingly larger amounts for imports, debt charges and other foreign obligations would not per se raise the real income in Canada.

The degree of stimulus imparted to domestic economic activity by an increase in prices relative to costs would depend upon the reaction of public confidence to the policy of currency depreciation, which would vary according to the circumstances under which the depreciation occurred; upon whether it was a correction of an existing maladjustment or the creator of new maladjustments. It is important to remember that there are very few instances of a country depreciating its currency unless subject to considerable pressure because of an unfavourable balance of trade or an outward movement of capital. Deliberate currency depreciation by a country enjoying a strong balance of payments position, in order to gain competitive advantage or to adjust price relationships, might react so unfavourably upon public confidence as to cause an actual fall in economic activity and a decline in real national income.

I would summarize my description of the two methods by which monetary action may attempt to raise price levels by saying that in view of the major importance of export and import prices in the Canadian price structure, a policy of internalt monetary expansion is unlikely to produce a broad rise in the general price level unless it is carried to a point where the internal situation is badly enough out of line to force currency depreciation, a form of monetary policy which undoubtedly can raise the general level of prices above what it would otherwise be. Neither of these methods, however, is likely to affect appreciably the relationships between the prices of individual commodities or of groups of commodities.

Part III—Monetary Expansion in Canada and Other Countries

I would like to place before the committee a table showing the relative changes in bank deposits that have taken place in Canada and certain other countries during the period since 1926.

INDEXES OF BANK DEPOSITS: CANADA AND CERTAIN OTHER COUNTRIES

(1926 = 100)

Year*	Canada	United States	United Kingdom	Australia	Sweden
	(1)	(2)	(3)	(4)	(5)
1926	100	100	100	100	100
1927	109	105	102	102	101
1928	114	113	107	106	99
1929	112	110	105	106	101
1930	105	106	109	101	105
1931	102	91	101	103	103
1932	95	83	115	106	103
1933	95	77	112	107	105
1934	101	89	114	113	103
1935	109	98	121	111	105
1936	115	107	130	112	111
1937	118	105	130	121	116
1938	123	106 (6)	126	122	123

*December 31 for Canada, U.S.A. and Sweden; December average for U.K.; and average for quarter ending December for Australia.
(1) Chartered banks' Canadian deposits.
(2) All banks in U.S.A.
(3) Ten London clearing banks.
(4) Trading banks.
(5) Commercial banks.
(6) Estimate based on latest available figure.

The amount of monetary expansion in Canada has been approximately in line with the increase in other countries where monetary policy has been considered an important factor in economic recovery. Comparing 1926—a normal pre-depression year—and 1938, the volume of Canadian bank deposits has increased 23%, considerably more than in the United States (+6%), slightly less than in the United Kingdom (+26%) and about the same as in Australia (+22%) and Sweden (+23%).

Part IV—Changes in Price Levels of Canada and Other Countries

I would like also to place before the committee a table showing the relative changes in general price levels of Canada and certain other countries since 1926.

GENERAL PRICE INDEXES: CANADA AND CERTAIN OTHER COUNTRIES

(1926 = 100)

Average	Canada	United States	United Kingdom	Australia	Sweden
1926	100	100	100	100	100
1927	98	95	96	99	98
1928	96	97	95	98	99
1929	96	95	92	98	94
1930	87	86	81	87	82
1931	72	73	71	78	75
1932	67	65	69	77	73
1933	67	66	69	77	72
1934	72	75	71	80	77
1935	72	80	72	80	78
1936	75	81	76	84	81
1937	85	86	88	90	92
1938	79	79	82	91	87

Broad movements in the general price levels of the United States and United Kingdom since 1926 have corresponded fairly closely with those of the Canadian index; all three had about the same severe decline in 1929-32 and about the same measure of recovery following 1932. The general price levels of countries with currencies depreciated below the Canadian dollar, have been appreciably higher in relation to pre-depression years, than the Canadian index; although not higher by nearly the full amount of depreciation.

During the last few years only about half of the severe fall in the general level of Canadian prices between 1929 and 1932, was recovered; but prices of primary products which fell more sharply than other prices in 1929-32 also rose more rapidly after 1932 and by 1937 the ratio of primary products' prices to the general price level was actually as high as in 1936. The ratio of farm products' prices to the general price level, for example, which had fallen from 100 in 1926 to 73 in 1932, was 103 in 1937. These and other inter-relationships of component price groups in the Canadian general index are shown in a table which I now place before the committee.

CANADIAN PRICE INDEXES

(1926 = 100)

Average	Actual Indexes			Ratios of Indexes		
	Farm products	Export goods	Import goods	Farm products to general index	Exports to general index	Exports to imports
		(1)			(1)	(1)
1926	100	100	100	100	100	100
1927	102	98	98	105	100	100
1928	101	94	96	104	98	98
1929	101	92	94	105	96	98
1930	82	77	84	95	89	92
1931	56	61	72	78	84	84
1932	48	55	71	73	82	78
1933	51	55	73	76	82	76
1934	59	61	77	82	85	79
1935	64	62	78	88	86	80
1936	69	67	79	93	89	84
1937	87	81	90	103	96	90
1938	74	71	83	94	90	86

[1]Gold not included in index of export prices.

Although the general level of Canadian commodity prices remained considerably below the pre-depression level, the disparities between major component price groups, which developed during 1929-32, had largely disappeared by 1937. Taking into consideration that the level of interest rates declined more over the period than the level of prices, it is apparent that in so far as prices were concerned, a rough approximation of the equilibrium existing in 1926 had been re-established by 1937.

The price levels of countries which depreciated their currencies below the Canadian dollar have been appreciably higher than comparable Canadian price indexes, but the relation of primary products' prices to other prices, on the whole, has been no more favourable in those countries than in Canada. To illustrate this point I would like to place on the record a comparison of certain price relationships in Canada and Australia as compared with those existing in 1929—i.e., just before currency depreciation.

RELATION OF CERTAIN PRICE GROUPS: CANADA AND AUSTRALIA

(1929 = 100)

Average*	Ratio of farm products to general index		Ratio of exports to general index		Ratio of exports to imports	
	Canada	Australia	Canada	Australia	Canada	Australia
1929	100	100	100	100	100	100
1930	90	88	93	81	94	79
1931	74	74	87	68	85	55
1932	69	73	85	69	80	54
1933	72	73	85	71	77	54
1934	78	89	88	98	81	81
1935	84	80	90	76	82	61
1936	88	91	93	93	86	75
1937	98	98	100	108	92	88
1938[1]	89	86	94	80	87	67

*Calendar year averages for Canada and averages for years ending June 30 for Australia.
[1]Calendar year averages for both Canada and Australia.

Considering the period since 1929 as a whole, the relation of prices of primary products to other prices appears to have been somewhat more favourable in Canada than Australia. I do not suggest, of course, that Canadian monetary policy was the sole, or even the chief, factor responsible for the favourable relationship between major price groups in Canada, because there were many other important factors influencing price levels as between the two countries.

Part V—Non-Monetary Factors

That Canadian monetary policy of the last few years has not been accompanied by the return of a high level of economic prosperity in this country, is not, in my opinion, evidence that the scale of monetary expansion has been inadequate. No amount of monetary expansion can hope to restore a high level of *real* national income in Canada during a period when there is a major decline in agricultural yields or in the demand for our goods in foreign markets. These unfavourable developments result in a smaller return from the expenditure of labour and capital in important sections of the Canadian economy—a national loss, the incidence of which may be transferred from one group to another within the country, but the burden of which cannot be avoided by the country as a whole.

Monetary policy cannot solve such a problem because it cannot create an important domestic demand for goods which we would normally export nor can it in a short time create new industries to absorb man-power and equipment from depressed export industries. Such a transfer, even if possible, might turn out to be very wasteful if the depression in export industries proved only temporary. Immobility of labour, particularly in agriculture, would make a transfer of this kind a very slow and expensive task which would only be justified if the low level of demand for our exports were considered to be of a permanent character.

Part VI—Summary

In my opinion, the amount of monetary expansion which has taken place in Canada to date, viewed in relation to actual conditions, has been sufficient to offer all the incentive to a high level of economic activity and prosperity which monetary policy can be expected to offer in a country where non-monetary factors are so important.

The large increase in the amount of money that has taken place without causing inflation, does not mean that expansion could be continued indefinitely without serious inflation. Historical precedents show that this is not only a matter of opinion and that sufficient expansion can make a currency worthless. The proper amount of expansion is a matter of judgment in which the central bank should be neither timorous nor over-bold. In practice, Canadian monetary policy has been about in line with the policy of other countries, as I illustrated a few minutes ago.

(b) THE POSSIBILITY OF PAYING INCREASED DEBTS WITH A DECREASE IN THE PRICE LEVEL

(Question by Mr. Jaques on March 24)

I shall assume in replying to this question, that Mr. Jaques was referring to an increase in the amount of interest charges payable on debts rather than to an increase in the principal amount of debts. If the interest rate declines, a larger principal amount of debt may not involve an increase in debt charges.

The burden of debt charges varies with the level of incomes rather than the level of prices. Debt charges may constitute a much heavier load when output is small and prices high than when output is large and the level of prices low.

The amount by which debt charges might increase would depend upon the concurrent change which took place in the amount of incomes. If the debt increase represented an increase in productive investment and resulted in a larger rise in incomes than in debt charges, the country's capacity to carry the increased debt would be greater. On the other hand, of an increase in debts is incurred for non-productive purposes there is no increase in incomes and the burden of debt charges rises, which is undesirable because it means an increase of fixed charges in relation to a highly variable income.

An increase in debt charges payable to foreigners or in foreign currencies is more undesirable than an increase in domestic debts for a country like Canada where variations in foreign trade may seriously affect the ability to make transfers abroad.

Domestic debt charges are an internal transfer between various groups of people. The maximum possible amount of such a transfer depends—as I have already mentioned—on the volume of income with which it is associated and on the psychological attitude of the public.

In my opinion, an increase in debt for productive purposes is desirable because it represents an increased ability to produce goods and services; no country has built up a large volume of production per capita without a great increase in productive debts. On the other hand, I believe that increasing debt for non-productive purposes is undesirable because it represents a move in the wrong direction, although it is impossible to define precise limits as to how far such an increase may go before something breaks down.

(c) MEMORANDUM

Ottawa, March 30, 1939.

At the last meeting of the committee, Mr. Tucker requested me to deal with the points raised in his speech of February 16th inst.

One of the suggestions which he made on that occasion was that if we issued the same amount of money per capita in Canada as they have in issue in the United States, we could issue another $220 millions, and use that money to retire interest-bearing debt. I should point out that in using the words, " money per capita " Mr. Tucker was referring to currency in circulation per capita.

I think I am correct in saying that the suggestion was based on a comparison between the active currency circulation in Canada and in the United States. I fully appreciate the desirability of examining the situation in other

countries to see whether something can be learned which would be advantageous for Canada. But I am afraid that comparisons of active circulation have no meaning. To my mind, the amount of currency in circulation at any given time merely represents the amount of money which the public chooses to keep in its pockets rather than on deposit with the banks. The amount which the public chooses to keep in the form of currency is partly determined by the extent to which people make payments in currency rather than by cheques, which in turn is partly dependent upon the availability of local banking facilities. The amount is also influenced by the activity of business, the level of prices and the velocity of circulation; it may also increase as a result of hoarding, either through lack of confidence in the banking structure or as a result of foreign acquisitions. For example, the note circulation of Great Britain has been swelled by reason of the fact that many people on the Continent have desired to hold the currency of that country. Part of the increase in United States currency circulation has been due to the same cause, but in that country there have been also important domestic factors.

As the influence of the different factors which I have mentioned can never be accurately measured, comparisons of per capita note circulation have no value. Moreover, even if the factors could all be measured, the results might only indicate that the level of business activity in one country was not the same as that in another, without showing why the difference existed.

In Mr. Tucker's remarks on this subject I note that he said:

> "As a matter of fact, we have in the past three years, to a very limited extent, actually increased our currency and circulation."

Perhaps I should point out that between December 31, 1932, and December 31, 1938, the active circulation of Bank of Canada notes and chartered bank notes, plus circulation of coin, rose from $171 millions to $238 millions, an increase of no less than 39 per cent, which brought total active currency circulation back to the pre-depression level.

Finally, it may be pointed out again that the amount of active circulation is determined by demand from the public. Notes which were issued in excess of demand would immediately find their way back to the banks, and produce an increase in the banks' cash reserves.

That brings me to the major point raised by Mr. Tucker on February 16th, which was, in effect, that the central bank should advance Bank of Canada notes to the Government free of charge, and that the Government should use this money to repay maturing obligations, or perhaps to finance its current expenditures.

For whatever purpose the Government used these notes, and no matter to whom it paid them, the result would be to increase the cash reserves of the commercial banks. The initial effect of the transaction upon the banks is the same as if they had been forced to invest in non-interest bearing Government securities. Subsequent effects depend upon the use which the banks make of their increased cash reserves.

If the increase in cash reserves persuaded the banks to make loans or investments which on the basis of their former high cash ratio they had considered undesirable or which would cause inflation, it would become the duty of the Bank of Canada to prevent such credit expansion. This might be accomplished by reducing cash reserves to their former level, or by increasing the legal minimum ratio of such reserves to deposits.

If the Bank of Canada were to reduce the amount of cash reserves by selling Government securities, the effect would be to put both the banks and the Government in the same position as if the Government had originally sold securities to the public instead of taking notes from the Bank of Canada.

Although the Government in the latter case would not have increased its interest-bearing debt it would be paying interest on issues formerly held by the Government-owned central bank which transfers the large part of its net profits to the Government.

If the situation were dealt with by raising the banks' legal minimum cash ratio, instead of reducing cash reserves, the effect would be the same as if the banks had voluntarily refrained from credit expansion on the basis of the increase in cash reserves. Since a large part of the increase in bank deposits occasioned by the return of the additional Bank of Canada notes to the banks would be in interest-bearing deposits, without any increase in banks' earning assets, the result would be to reduce banks' net earnings.

It is important to remember that financial institutions, of which banks are one example, hold securities and have earnings for the benefit of their creditors, who, in the case of banks, are depositors. Any action such as the policy under discussion, which reduces the earnings of these institutions, acts to the detriment of their creditors and becomes a form of discriminatory taxation without regard for ability to pay. As an illustration of the course which these adjustments take, lower banks' earnings in recent years, due to smaller security yields and the decline in the volume of loans, have been offset to a large extent by a 50 per cent cut in the rate of interest paid on savings deposits.

A later suggestion was to the effect that the cash reserve requirements should be gradually increased until every cent owing by the banks to their depositors, was covered by legal tender. What I said earlier in respect to the proposal to increase minimum reserve requirements applies to this suggestion, but naturally with greater force. It is a proposal which, broadly speaking, involves two things:

(a) Taxation of bank depositors, and

(b) The setting up of some new form of banking system to make loans. Obviously, if the banks were forced to carry 100 per cent cash reserves against deposits, their loans and investments, in fact all their assets other than cash, would be restricted to an amount not exceeding their capital and reserve funds. At December 31st last this amount was $279 millions—an amount which is obviously inadequate to finance the requirements of agriculture, industry and individuals. As the banks would have very little in the way of earnings, they would be forced to eliminate any interest payments to depositors. To cover their operating expenses they would, in fact, have to require anyone who wanted to maintain a deposit account to pay a substantial charge for that service.

I am not sure that the suggestion was *intended* to convey a recommendation that the banks should be practically debarred from making loans and investments, and that presumably some other form of organization should be set up for this purpose. I say that I am not sure, because at a later point in the speech it is recommended that the reserve requirements should be increased "to a point where the banks will be able truly to say that for every dollar they loan they have to have a dollar on deposit." It is the case to-day that for every dollar the banks loan or invest they have a dollar on deposit. Under the system proposed they would have a dollar in *cash* for every dollar on deposit. But, as I have already stated, their loans, investments and other assets in that case could not exceed the amount of their capital and reserve fund.

Any policy of monetary expansion which leads to a material reduction in interest rates undoubtedly causes suffering to many people; but to the extent to which such a policy remedies maladjustments and raises the level of economic prosperity, there is some justification for it—a justification, however, which disappears when further monetary expansion becomes unneces-

sary. Quite apart from any risk of inflation—which might be offset by counter measures—an additional issue of currency to finance Government expenditures could be criticized as being a discriminating policy which would not ensure a fair distribution of the burden it would impose. In essence, therefore, Mr. Tucker's proposal that the Bank of Canada should issue additional currency to the Government, and that any inflationary effects should be obviated by an increase in the legal minimum cash ratio of the chartered banks, is not a proposal related to monetary policy but rather to taxation. As such, it comes within the sphere of Government fiscal policy rather than central banking activity.

I have gone into this matter at some length—perhaps the Committee will feel at undue length—because I am convinced that there are certain fundamental misconceptions—widely held—in respect to banking operations. If I am right in this belief, it must often be the case that proposals for changing the present procedure refer to a procedure which, in fact, does not exist. A discussion on this basis necessarily leads to considerable confusion.

APPENDIX "B"

Basic Statistics of Chief Economic Importance

(Submitted by Mr. McGeer)

—	1914	1921	1929	1938
1. National Debt ($000)—				
Gross funded—				
Dominion	544,391	2,902,482	2,647,034	3,540,784
Provincial	120,000[1]	490,692	817,940	1,740,000
Municipal	442,615	837,370	1,193,971	1,447,000
Total	1,107,006	4,230,544	4,658,945	6,727,784
Net—				
Dominion	335,997	2,340,879	2,225,505	3,101,668
Provincial	100,000[1]	400,000[1]	735,000[1]	1,560,000
Municipal	397,504	753,600[1]	1,160,000	1,410,000
Total	833,501	3,494,479	4,120,505	6,071,668
2. National Income (estimated) ($000)	2,600,000[1]	3,765,000[1]	5,600,000[1]	4,401,500[1]
3. National Wealth (estimated ($000)	14,658,161	22,195,000	31,275,814	26,000,000[1]
4. Trade ($000)—				
(a) Exports	461,443*	1,210,428*	1,208,338	956,726
(b) Imports	455,956*	1,240,159*	1,298,993	677,451
Total	917,399	2,450,587	2,507,331	1,634,177
Balance of Trade	+5,487	−29,731	−90,655	+279,275
5. Production: Net value	1,625,200	2,815,000	3,946,609	2,751,637[2]
6. Mineral Production—				(prelim.)
Gold ... oz.	773,178	926,329	1,928,308	4,715,480
value $	15,983,007	19,148,920	39,861,663	165,867,009
Silver ... oz.	28,449,821	13,543,198	23,143,261	22,157,154
value $	15,593,631	8,485,355	12,264,308	9,633,265
Copper ... lb.	75,735,960	47,620,820	248,120,760	586,020,402
value $	10,301,606	5,953,555	43,415,251	58,026,972
Nickel ... lb.	45,517,937	19,293,060	110,275,912	210,673,270
value $	13,655,381	6,752,571	27,115,461	53,949,311
Total Value Mineral Production ... $	128,863,075	171,923,342	310,850,246	444,824,222
7. Bank Deposits—				
Notice or Savings ... $	656,760,687	1,289,347,063	1,479,870,058	1,630,481,857
Demand or Current ... $	346,069,908	551,914,643	696,387,381	690,485,877
All Deposits ... $	1,144,211,363	2,264,586,736	2,696,747,857	2,823,686,934
8. Governmental Revenue: (Gross)—				
Dominion ... $	163,174,395	436,292,184	460,151,481	516,692,749
Provincial ... $	50,418,000	102,030,458	183,598,024	250,000,000[3]
Municipal ... $	63,242,000	274,000,000	337,500,000	285,000,000[3]
Total ... $	276,834,395	812,322,642	981,249,505	1,051,692,749
9. Governmental Expenditure—				
Dominion ... $	186,241,048	528,302,513	388,805,953	534,408,118
Provincial ... $	55,693,000	102,569,515	177,452,192	265,000,000
Municipal ... $	64,000,000	334,000,000	386,000,000	320,000,000
Total ... $	305,934,048	964,872,028	952,258,145	1,119,408,118
Wholesale Prices (1926=100)	65·5	110·0	95·6	78·6
Bank Debits ($000)	(Not known)	28,526,000	46,670,482	30,924,363
Bank Clearings ($000)	7,909,212	17,443,052	25,105,188	17,263,574

(While clearings are not a satisfactory measure of business activity, debits were not collected until after the war.)

[1] Estimated from interest payments.

[2] New basis—deflated.

[3] Estimated.

*Nearest fiscal year.

SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 4

WEDNESDAY, APRIL 5, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

WEDNESDAY, April 5, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Cleaver, Coldwell, Donnelly, Fontaine, Fraser, Hill, Howard, Jaques, Kinley, Lacroix (*Beauce*), Landeryou, Lawson, Leduc, Macdonald (*Brantford City*), McGeer, Manion, Mayhew, Moore, Quelch, Raymond, Ross (*Middlesex East*), Stevens, Taylor, Tucker, Vien, Woodsworth.

In attendance: Dr. W. C. Clark, Deputy Minister of Finance and Mr. Graham Ford Towers, Governor of the Bank of Canada.

Mr. Towers read a statement in reply to a question asked by Mr. McGeer at the last meeting.

Examination of Mr. Towers continued.

At one o'clock, the Chairman having put the question: "Shall the Committee sit to-morrow?", the Committee divided, the question being resolved in the negative.

The Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,
WEDNESDAY, April 5, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: We have a quorum, gentlemen. What is your pleasure as to procedure? Shall we go on with Mr. McGeer's examination of Mr. Towers? Before doing so, the governor has a statement to make.

Mr. TOWERS: Replying to questions you raised during our last meeting, Mr. McGeer.

Mr. McGEER: If I may just put it on the record, it is a statement replying to the question on pages 66 and 67 which reads as follows:—

> Mr. McGEER: No, the question is this: can we not use our silver production as a basis for domestic currency and finance these kinds of development—

And I was referring there to domestic enterprises such as construction of highways, payment of pensions and other purely local matters.

> —more cheaply than we can by borrowing at an interest rate.

Then your answer was:—

> Mr. TOWERS: If I might perhaps put down in black and white any humble opinion that I may be able to express on the subject and make it available at a subsequent meeting, that would certainly be best so far as I am concerned. I will put in there anything that I can think of putting in, and then my knowledge will be exhausted.

That is the statement you are now going to read, is it?

Mr. TOWERS: Yes.

Mr. Chairman and gentlemen, the main proposal upon which I was asked to comment related to the issue of currency or central bank credit to the government as an alternative method to borrowing or taxation in financing government expenditures.

There is no doubt, of course, that it is *possible* to issue currency to finance government expenditures and that it is within the powers of parliament to provide the necessary legal authority. However, I believe that this proposal has been made because its advocates consider it to be preferable to other methods of financing—not simply because it may be possible or legal.

First of all, I think that I am correct in saying that those who give consideration to this form of procedure do not wish it, if adopted, to result in inflation. No doubt they fully realize the disrupting influence of inflation and the social injustices and other hardships which it causes. A great number of Canadian people would—if they understood the situation—violently object to measures likely to produce such unfortunate results. For example, there is no reason to believe that the reaction of organized labour in Canada would be any different than in the United Kingdom and United States where labour leaders have declared vigorously against inflation.

Other countries whose governments resorted to issuing currency in order to finance government expenditures, experienced very unfortunate results. With the committee's permission, I shall not describe these experiences in detail, since the disastrous inflations of the post-war period and more recent, if less extreme, examples are a matter of common knowledge.

I believe that those who advocate issuing currency to finance government expenditures, do so in the belief that in some manner inflation may be prevented and that it will be a cheaper method of financing than borrowing or taxation.

I have already dealt—in a memorandum placed on the record at the last meeting of the committee—with a suggestion made by Mr. Tucker that the inflationary effects of financing government expenditures by means of issuing currency should be offset by raising the legal minimum cash ratio of the chartered banks. It would be repetition for me to discuss this suggestion again in detail, and perhaps it may be sufficient to say that this proposal is, in essence, a form of discriminatory public taxation which is bad because it is not graduated in accordance with ability to pay. The adjustments which it would cause would be of a most unusual and disturbing character, and would create a certain loss of public confidence.

When it is claimed that a proposal of this type is "costless," I suppose that what is meant is that it is costless to the *government*. I cannot, however, conceive that a policy which is expensive to the people—as this proposal would be—can be costless to the government which is simply the representative of the people.

Mr. McGeer: Mr. Chairman, I should like to intervene right here—I did not ask the governor of the Bank of Canada for a dissertation on the disastrous consequences of uncontrolled inflation. I did ask the governor of the Bank of Canada a plain and specific question, with which this statement, as far as it goes, has nothing to do whatever. The question I asked of him I am going to repeat; and I am going to read it from the record, Mr. Chairman, because I think I am entitled to an answer to that question.

Mr. Towers: I have not finished, of course, Mr. McGeer.

Mr. McGeer: I know.

The Chairman: Do you object to the governor's finishing his statement?

Mr. McGeer: Yes.

The Chairman: He has only two more paragraphs to read. Why not let him finish?

Mr. McGeer: I want to register this objection here and now.

The Chairman: All right.

Mr. McGeer: I want to quote from page 66, where we had that very same issue dealt with at the last meeting of the committee, as follows:

> Mr. Towers: Perhaps, then, the question would be this: would it not be best to take care of government expenditure by issuing money and put that money on a silver backing in preference to some other kind?
>
> Mr. McGeer: No. The question is this: can we not use our silver production as a basis for domestic currency and finance these kinds of developments—

And I referred to armaments, the tourist trade, the payment of pensions, and included other purely domestic activities which would not involve importation.

> —more cheaply than we can by borrowing at an interest rate?

That was the question.

Mr. Towers: That is exactly what I am dealing with in my answer.

The Chairman: Go on, please.

Mr. McGeer: Very well.

Mr. Towers: Continuing: If the government wants to adopt such a policy, it is possible for it to do so; but the result is a levy upon the public which counteracts the saving to the government.

If the additional money which the issue of currency to finance government expenditures would provide were actively used—as in the other countries to which I referred earlier—the result would be inflation. In my opinion, the onus is on the advocates of this proposal to prove that the results would not be the same in this country as history has shown to have occurred in other countries.

When the establishment of a central bank was being discussed in Canada, one of the chief reasons advanced against its foundation was that a central bank would provide such an easy way of creating money that the temptation to make immoderate use of it would be too great to resist. The period of four years during which the Bank of Canada has been in operation, has been too short to prove that those fears were unfounded, and the real test of our ability to adhere to a policy of moderation has yet to come.

By Mr. McGeer:

Q. Mr. Towers, we were dealing with the extent to which silver currency, in the form of silver money and silver certificates, was used in the United States the other day, and we got some figures. I am now quoting from the January report of 1939 of the federal reserve banking system which is known as the Federal Reserve Bulletin; that is the official monthly issue of the federal reserve banking system of the United States.—A. Yes, of the Federal Reserve system.

Q. At page 45 it gives the amount of the currency in circulation in the United States as follows: Silver certificates, $1,312,000,000; subsidiary silver, $356,000,000, making a total of silver backed currency and silver currency used in the United States of $1,668.000,000. If silver backed paper currency and silver currency is used to that extent in the United States, do you not think that proves the practical virtue of a silver backed currency on the North American continent which we can use?—A. I think if the government should decide to do so, it can use any form of money at all by making that money legal tender.

Q. Yes.—A. Of course, I realize that. I have said that over and over again; I am not adding anything to what I have said before. I have said all I can, so it is a case of "force majeure."

Q. We shall just go along with the questions. You may not agree with the way I conduct my examination, and I may not agree with the way you answer questions. But we shall try to get along as best we can. If this government of Canada can purchase silver at less than a third of the value that it can give to the money in coin, that does constitute a source of placing a form of currency in use at a profit to the government, does it not?—A. As I said, before, it does represent, of course, a more expensive method than the one we presently follow. Perhaps I might be allowed to clarify that question of profit, because that did come up in an earlier meeting of the committee. One realizes, of course, that you can only call the difference between the 27 cents worth of silver in the silver dollar and the 100 cents of value which the government obtains when it issues and spends it a profit if you assume that the government takes no responsibility for the redemption of the dollar, that it obtains a dollar's worth of value for 27 cents worth of silver but disclaims any future responsibility for redemption. The dollar will be in the hands of the people. The people may do with it what they see fit to do with it.

Q. And that is exactly what happens when the government issues a silver dollar, is it not?—A. That is it.

Q. That is it. That is, when the government takes 27 cents of silver and mints it into a coin and issues it for a dollar's value in either services or material supplied to the government, the government gets 100 cents in value from the person it gives the dollar to, whether it be for goods or services, although the

dollar has actually cost the government 27 cents and the less than one cent of minting charges. That is right, is it not?—A. That is right; and that happens, of course, in the issue of other forms of currency.

By Mr. Coldwell:

Q. Which issue, you say, is cheaper?—A. Yes.

By Hon. Mr. Lawson:

Q. Did I understand you, in your previous answer, to conclude that when somebody brings that dollar back to the government, the government has to redeem it at a dollar's value?—A. No; the government does not accept any responsibility for that.

Mr. Coldwell: No; but the people who produce have to redeem it.

Mr. Vien: No.

Mr. McGeer: No.

Mr. Coldwell: The value in credit.

Mr. Vien: Would you say those who produce the silver have to redeem it?

Mr. Coldwell: No; those who produce the silver do not; but somebody has to produce goods and services to the value of one dollar.

Mr. Towers: Oh, yes.

By Hon. Mr. Lawson:

Q. When the silver dollar comes back in, does it not have to be redeemed?—A. No. Dr. Clark could perhaps answer that more accurately than I can; but, in fact, no one will take it back. When it is once out, it has no father.

By Mr. Donnelly:

Q. It is legal tender up to a certain amount?—A. Up to a certain amount, yes; but the government would not take it back in the sense of redeeming it.

By Mr. Vien:

Q. But the banks must accept it, up to a certain amount, as deposits?—A. Yes.

By Mr. Landeryou:

Q. They can take it back in taxes, can they not?—A. Yes; and issue it again

By Mr. Kinley:

Q. Suppose an American bank has a thousand silver dollars which it has collected from the customers. What disposal will they make of them?—A. As matters stand, they could deposit them in one of the banks, because the issue is not redundant. Were the issue an extremely large one you might be unable to do that.

Q. You are liable to that foreign bank for your dollars or for that money, are you not?—A. I would say that the silver dollar is only legal tender up to a certain figure: but, in practice, if the issue is not redundant, it is accepted in any amount.

Q. For instance, suppose the bank took five silver dollars from every customer; they might have a thousand. Would you say they could not redeem those thousand silver dollars?—A. That the bank could not? I do not quite understand that question.

[Mr. Graham Ford Towers.]

Q. Suppose a bank in Boston has five hundred customers who each bring in five silver dollars and they take them all. Do you mean to say that, on exchange, the Bank of Canada would not be responsible for the silver dollar?—A. Not legally, no.

Mr. TUCKER: He is introducing the question of foreign exchange. That is a different matter altogether.

The CHAIRMAN: One at a time, gentlemen.

Mr. MCGEER: We will deal with that later, if we may.

By Mr. McGeer:

Q. But I think the fact is, Mr. Towers, that the bank receiving silver dollars has a dollar of assets on hand, has it not, not redeemable with the Bank of Canada or with the government?—A. Yes.

Q. That is correct?—A. Yes.

Q. And we would accept on statement of the bank's assets, as assets, whatever silver coinage it has on hand?—A. That silver coinage, of course, does not come within the category of legal cash reserves, as I understand it.

Q. I am not talking about legal cash reserves. I am talking about bank assets.—A. Yes.

Q. If the Bank of Montreal had ten million silver dollars in its vaults, it would have $10,000,000 of Canadian assets that would have to be treated as assets at full value, would it not?—A. Provided the issue of silver was not so redundant that the silver dollar would sell at a large discount.

Q. We have never come to that point yet.—A. We have not, but it can be done. It has been done in Cuba, and is being done there now.

Mr. DONNELLY: When do you get enough that it becomes redundant?

By Mr. Tucker:

Q. How could it be redundant when it is legal tender?—A. You would find on a visit to Cuba that the over-issue of silver is so great that it sells at a substantial discount as compared with the other currency which is the United States' dollar.

Q. Because it is inconvenient to handle?—A. The people want to get rid of it, yes.

By Mr. McGeer:

Q. Did not the same thing happen to the gold backed franc of France?—A. They left the gold standard and then it happened, yes.

Q. Yes; but they reduced their currency time and time again?—A. Oh, quite.

Q. Before they left the gold standard?—A. If you suggest one can have depreciation with any form of currency, either silver dollars or paper dollars, I quite agree.

Q. Quite agreed. But this thing of over issuing and reducing the value of the currency by a redundancy of circulation is not peculiar to silver currency any more than it is to any other currency, no matter by what it is backed?—A. That is correct.

Q. That is correct. Now I put the question to you about the cost to the government. I had in mind that if we used silver currency within reasonable limits, without having the disaster of inflation through over issue and redundancy of currency in circulation, it would be cheaper for the financing of purely domestic enterprises than borrowing money at interest would be. Will you not agree with that proposition?—A. On the basis on which you put the question, namely, that the action taken shall be within the limits of what the monetary

policy would otherwise have been, it then becomes the case, of course, that the additional silver will displace some other form of circulation, and we get back to that question of one kind rather than another. On that basis, as the existing arrangements are cheaper than the issue of silver, the government saves nothing.

Q. Yes, but that was the basis upon which I put the question. I will put it to you in another way. You know that in the last decade, that is in the last ten years, this dominion of ours has increased its total debt by roughly a billion dollars?

Hon. Mr. STEVENS: Federal?

Mr. McGEER: Yes.

The WITNESS: I think so.

By Mr. McGeer:

Q. So that we have been going behind in Canada by borrowing money at the rate of $100,000,000 a year for the last ten years? That is right, is it not?—A. Yes.

Q. And from the looks of present-day conditions, with the need for armaments looming and with unemployment not solved at all, the indications are that we are going to increase the quantum of that annual deficit. Is that not correct?—A. It looks like that.

Q. Among the things that make up our annual deficit are all the public expenditures, are they not? Including our balance of payments abroad, our liquidation of debts abroad, our payments for pensions, our aid to unemployment, and a number of other purely domestic activities. That is correct?—A. I did not quite understand the reference to balance of payments abroad or that in connection with the liquidation of debts abroad. Perhaps the latter is refunding.

Q. Of course, we have been trying to pay off our foreign debts?—A. Yes.

Q. And we have been using gold for that purpose?—A. We have been using general funds provided by our export trade and our tourists, and so forth, of which gold is a part.

Q. I do not think there could be any other justification for shipping gold abroad than for the liquidation of foreign debts?—A. I should think there might be justification for shipping it abroad to obtain useful imports that the people wanted.

Q. Supposing we could find a way of financing some of our domestic activities that would free us from the cost of borrowing money; for instance, supposing we took the actual figures which we have used here of twenty-two million ounces of silver purchased at $9,000,000 and issued $35,000,000 of currency, and we used that to meet our obligations; that would reduce our annual deficit from the $100,000,000, by whatever amount of currency we used,—let us say for purposes of argument $35,000,000 a year. Would that not be a practice more beneficial then borrowing and increasing our national interest-bearing debt loan?—A. I do not think I can add anything to what I said this morning and what I read in reply to the question raised by Mr. Tucker.

Q. All right. Then I shall put this to you: Do you think an issue of currency based on silver which would be purely a domestic currency, to the extent of $35,000,000 a year, would cause disastrous consequences through inflation in a country which is operating on an annual deficit of $100,000,000 a year, or which results in that increase in the interest-bearing debt on the taxpayer?—A. If my recollection is right that question was raised before; I think I could answer it again in the same way. Perhaps it might be best if I used the same words. I do not think that anyone—I shall not use the same words—can say exactly how much can be done in the way of an increase in currency before you would have inflation to a substantial degree. It depends upon the circumstances during the time that the issue is being increased. But it is possible to do so if one

[Mr. Graham Ford Towers.]

assumes the continuation of the policy which you mentioned for a sufficient period of time. I would certainly say that in those circumstances the eventual result would be the thing which you want to avoid, namely, inflation. Of that I am sure.

By Mr. Vien:

Q. But the question, Mr. Towers, would be: Why should it result in more inflation in issuing currency than in issuing bonds? Both are based on the credit of the country.

Mr. TUCKER: When you issue bonds you bring money into existence—

By Mr. Vien:

Q. But the question is this: Why should you cause any damage to the credit of the country by issuing currency of any kind rather than issuing bonds bearing interest?—A. To the extent that the requirements are met by issuing bonds, they are met in the first instance, under one set of circumstances, from the savings of the people. In other words, the people accumulate savings and they lend those savings to the government. There is no increase in the amount of money in existence but simply a transfer from the savers to the government and then from the government to the people. On Mr. Tucker's point there are certain occasions when one will find that because of an easy money policy the banks are increasing their holdings of government securities, and to the extent that government borrowing is financed in that way one does get an increase in the quantity of money in circulation. For that reason I have never said that an expansionary monetary policy was per se fatal. In fact, it would be a strange thing if I did say so because that is exactly what we have been doing the last few years. I do not know whether we could go, say, $40,000,000 further or $50,000,000 further; but certainly the sky is not the limit.

By Mr. Quelch:

Q. But suppose the bonds are sold by chartered banks?—A. The point I was making in reply to Mr. Tucker was that during a period of monetary expansion, if the banks are adding to their total of loans and investments, the financing is done by an expansion of deposits. But whether that procedure is being followed or not, of course, depends upon the monetary policy of the central authority, because they either make it possible for that to happen or impossible.

By Mr. Landeryou:

Q. How much does it cost the banks to purchase bonds in that way by expanding credit?—A. It costs the banks the interest which they pay on the resultant deposits and the expense of operating, in the way of servicing those deposits and maintaining their staffs and branches.

Q. It does not cost them any more to operate than the expense of the interest on the deposits?—A. I mentioned the other day 3 per cent. On the other hand, perhaps they are getting on those bonds three quarters of 1 per cent or $1\frac{1}{2}$ per cent.

Q. On the average they get a good deal more than that?—A. No, they do not.

By Mr. McGeer:

Q. What you have told us, if I am getting the meat of your answer, is that an expansionary program if kept within reasonable limits may produce helpful results to the economy of the nation?—A. Yes.

Q. What I have suggested to you is that an expansion of silver currency in Canada—because we are a silver producing country and the United States is using it—would result in this: Silver currency within the limits of, say, $35,000,000 a year would not be a program that would likely induce inflationary or disastrous consequences because of the fact that it would greatly help to decrease our national increase of $100,000,000 in interest-bearing debts?—A. You have in mind that the $35,000,000 would serve to swell or would be a net addition to the currency in circulation or the cash reserves of the bank, as the case may be?

Q. Yes, I am satisfied with that, and I am quite satisfied that this country needs much more than that addition.

By Mr. Cleaver:

Q. What would the expansion be, about ten to one?—A. It would be, presumably, if the banks found that there were assets which they were willing and able to acquire.

Q. That would be an increase of $350,000,000 annually?—A. Presumably.

By Mr. McGeer:

Q. Upon what basis can any merchant bank increase its subsidiary coins by ten times its value?—A. You have in mind that these silver dollars would not be legal tender, except for a small amount?

Q. Absolutely.—A. That is different. Then the banks could not consider that as part of the legal cash reserve. The silver coin would pile up in the banks. The people who received the silver coins would generally not want to overload their pockets and would deposit it in the banks; and other things being equal the banks would hold approximately $35,000,000, and various people who had held silver would have $35,000,000 in deposits in the banks. As the silver dollars would be useless from the banks' point of view, I assume that they would be rather reluctant to receive them. I assume they would have to reduce the rate of interest on deposits in due course if that process continued.

Q. If you would not mind confining yourself to one question—

Mr. Vien: I think the governor should be allowed to finish his statement. It will make for greater clarity. There is certainly a clash of opinions between the governor and Mr. McGeer, but we have already covered the ground several times. I am quite satisfied that Mr. McGeer should go on, but when the governor is asked a question and wants to develop his statement we are very much interested in listening to him.

Mr. McGeer: The only thing I have to suggest, Mr. Chairman, is this: That if we could only deal with the questions and answers we would get along much better and there would not be the necessity for repetition. The question I put is very simple: Could a bank increase its deposits of silver currency by ten times its value: The answer to that is "No."

The Witness: Not worded in that way. I do not understand the wording "increase its deposits of silver currency ten times." I am at a loss there.

By Mr. McGeer:

Q. All right; let me put it to you this way: If, for instance, instead of issuing silver currency you issued Bank of Canada notes?—A. Yes.

Q. And paid them out for roads and pensions?—A. Yes.

Q. And they were deposited with the banks?—A. Yes.

Q. Then the banks on receipt of that Bank of Canada currency would have, under the provisions of our bank Act, the power to increase deposits not by ten but by twenty times the amount; is that not correct?—A. By buying additional investments or making additional loans, yes.

[Mr. Graham Ford Towers.]

By Hon. Mr. Lawson:

Q. Ten or twenty times?—A. In practice ten; legally twenty; but that has no great bearing because we will not get to that point.

Mr. CLEAVER: It is not the bank that increases it ten or twenty times; it is our system. It is the customer's use of the money.

Mr. McGEER: Mr. Cleaver raises this question and I shall try to explain it. What I am pointing out to you is that there is nothing like the danger of uncontrolled inflation from the issue of a purely domestic sliver-backed currency that there is under our laws as they are from the issue of Bank of Canada notes?—A. No, because silver currency not being legal tender becomes useless for any purpose of banking expansion, and, under those circumstances, one might say its issue constitutes a form of tax.

Q. Yes, but it does not constitute a form of tax until the cycle of inflationary activity pyramids to increase prices and wages above and beyond what they were before the inflation took place?—A. I was not referring to inflationary results when I made that last remark but only to the fact that it would be, so to speak, useless money, being more than is required for active circulation and yet not legal tender which constitutes cash reserves. It would be necessarily idle money—

Q. Yes but—

The CHAIRMAN: Let the governor finish his statement, please.

The WITNESS: It would be idle money in the hands of someone, therefore not productive of inflation; but being idle money in the hands of someone it constitutes, so to speak, a tax on that someone.

Q. Where you have in the United States $1,686,000,000 of currency in circulation and have no evidence whatever of Gresham's law coming into operation under our system, I think we can assume that the day of Gresham's law is just about as dead as anything could be.—A. May I interrupt? You will find Gresham's law operating at present in Cuba on the basis of the issue of silver.

Q. We are not in Cuba; we are in Canada operating under probably the most efficient and effective system of monetary control in the world.

The CHAIRMAN: That is a compliment.

Mr. COLDWELL: You are proposing two currencies.

Mr. McGEER: I am only dealing with possible sources of supply of Canadian money to reduce the cost of public finance, and I am developing silver as just one minor feature of that. We will come to the other later.

Mr. COLDWELL: But I think the other is what we would be interested in now.

Mr. McGEER: The silver miners are interested.

Mr. COLDWELL: The question has been put in so many different ways and answered in the same way, and the answer, it seems to me, has been that there is a better and cheaper form of currency than silver. Mr. McGeer does not agree and it occurs to me that we are not getting anywhere at all. The governor of the bank does not agree with Mr. McGeer and I think it should be for this committee to decide later. It seems to me that that question has been pretty well exhausted, and I should like to hear the other point discussed because I am more or less in sympathy with the idea that we could issue money for public works, and so on, to a greater extent than we are doing. I should like to get on with that discussion.

By Mr. McGeer:

Q. Dealing with the question of the expansion of domestic currency, would you suggest that there is any difference in effect on the general economy through the expansion of, say, a silver-backed currency or the expansion of bank

deposits?—A. I find difficulty in following that question, Mr. McGeer. Might I ask for this clarification: Expansion due to additional issues of silver currency or due to an increase in bank deposits? That assumes, again, I suppose, that the additional silver currency is not legal tender and therefore does not form the basis for any subsequent expansion of bank deposits.

Q. But any silver currency as it is to-day?

Mr. TUCKER: Except on a dollar for dollar basis. If you had $100 in silver you could make a loan on it; in other words, it would be a 100 per cent basis. It would not be entirely useless.

Hon. Mr. LAWSON: The bank could not hand me out one hundred silver dollars in satisfaction of my deposit. I would say that I wanted legal tender.

Mr. TUCKER: The governor said this silver is useless; but it is not useless to the extent of dollar for dollar.

Mr. TOWERS: Yes, perhaps in a form that is the case; although, it is not legal tender and therefore cannot be used above a certain amount. For example, if an additional issue of $35,000,000 in silver dollars was made one might expect practically all of that to gravitate to the banks; let us say the whole of the $35,000,000 does. Well, under that process people deposit silver dollars in the banks and the banks' deposits increase by $35,000,000; their assets in the form of silver increase by $35,000,000, and the situation might result where they would have a 100 per cent silver reserve against this new $35,000,000 on deposit. That finishes the thing so far as they are concerned. They cannot go further on that basis.

By Mr. Tucker:

Q. Is that quite so? It would be less than that, if they put up bonds or assets at the time they got that amount?—A. But they have not got any loan.

The CHAIRMAN: Mr. Tucker, if you will stand we can hear you better.

Mr. TUCKER: I did not really intend to interrupt Mr. McGeer while he was making his statement. It means obviously what has been said. We will suppose that this silver currency is put out and put into the hands of the banks; whether by deposit or otherwise; and supposing they get a thousand dollars and they purchase a government bond on the strength of having that thousand dollars of silver currency; and then you say we will loan you a thousand dollars against that bond. They will take the bond, they are not afraid of taking that bond because there is a thousand dollars worth of silver to support it. That being so, what you say with respect to this currency becoming frozen through deposit with the banks would hardly be correct, would it?

Mr. TOWERS: I think that that line of argument is based on a very complete misconception of—and I say this, Mr. Tucker, I assure you with no disrespect—a very complete misconception of bank operations; which I think was clearly evident in the remarks in the house on February 16 and which we tried to explain in that memorandum which went on the record last meeting.

Mr. TUCKER: I am prepared to discuss that with you. I think it is a misconception on your part of what I said.

The CHAIRMAN: Mr. Stevens has the floor.

Hon. Mr. STEVENS: I just wanted to ask if general questioning is going to be permitted at this time. I understood that Mr. McGeer had the floor. My understanding of the situation was that any member having the floor would exhaust his right and then someone else would have an opportunity. We are having quite a few interjections. I would like to interject also but I did not wish to do so if it is contrary to the desire of the chair and of the committee.

The CHAIRMAN: That was the understanding, that Mr. McGeer would have the floor until he had completed.

[Mr. Graham Ford Towers.]

Hon. Mr. STEVENS: Why not let Mr. McGeer get through and then some of the rest of us can get the floor afterwards.

Mr. KINLEY: Just on this point; the impression I got from that is that the bank could buy a government bond at 5 per cent and issue a cheque for it, and then draw interest on the government bond. Then, what becomes of the cheque? Doesn't it go to the clearing house the next day, and must they not protect it with legals? On whatever issues they buy now they have only one way of doing it.

Mr. LANDERYOU: Where are you going to get the money with which to buy the legals with which to protect your bond purchase?

The CHAIRMAN: Mr. McGeer has the floor. Will you proceed, Mr. McGeer.

Mr. McGEER: Yes. Now, if we can get back to inflation.

The CHAIRMAN: Suppose we let Mr. McGeer finish his examination without interruption.

Mr. McGEER: Well, Mr. Chairman, I would like to say this: I have spent a good many years of my life trying to inform myself with respect to what I think is one of the most important departments of public administration in our whole scheme of government. And I want to say this, that in my opinion the monetary institution of the United States is the most important, or at least one of unquestioned fundamental importance to our whole economy and to the whole success of our scheme of democracy, but I would not wish any member of this committee to feel, if he wants information during the course of my examination, that his request will not be welcomed by me. And I know of no time that parliamentarians in Canada can spend with possibilities of more value to this nation than spending them in committees of inquiry with the officials of the Bank of Canada.

Some Hon. MEMBERS: Hear, hear.

Mr. McGEER: And I want to say to the members that I do not wish to be prolix, but the things that we are dealing with are things little understood by the public, and not very well understood by men who have not given a good deal of their own time and thought and study to. My hope is that my work in parliament may improve the conditions of this nation; and my only hope here is to co-operate with the officials of the Bank of Canada in meeting this horrible problem of reducing the cost of public finance and of getting to a place where we will have a balanced budget; and to meet the financial expenditures that are necessary to give to our people in this dominion some of the things that I believe are available if we can only organize a scheme of work and production that can be balanced out so that we will not have idle men and idle money in the midst of an abundance of resources. And I want to say to the gentlemen who are in this committee, I am here to clarify and to improve this situation, not to destroy investments, or our bank interests, or any of our institutions that are worthwhile.

Some Hon. MEMBERS: Hear, hear.

Mr. CLEAVER: Are you suggesting that silver should still be restricted to a five dollar legal tender basis; or is your suggestion that it should be stepped up to a full value basis?

Mr. McGEER: I would say that the whole proposition of stepping it up would be to follow the course that has been followed in the United States.

Mr. CLEAVER: I was just asking so that I might better understand your question.

Mr. McGEER: I think the question that would have to be determined there would be the question of value, and Canada is a silver-producing nation. I am not convinced in my own mind that we should adopt a dual basis of currency

such as exists in the United States, which would be their federal reserve funds plus the full legal tender silver certificates, which would give to us in Canada a Bank of Canada money plus a full legal tender certificate; but I do think there is a field of investigation that is worth while there; and I do say that the only real justification for the employment of that kind of money in Canada would depend upon its value to the silver-producing industry, as an associate industry with the production of gold.

Mr. CLEAVER: In order that I may understand your question, the object of the question which you are now directing to the Governor of the Bank of Canada relates to a determination of the basis of a restricted legal tender?

Mr. McGEER: Purely domestic.

Mr. VIEN: Not domestic; rather, restricted.

Mr. McGEER: It is domestic currency because it is restricted in that way; and because of the fact that it would be valueless outside of the country. I am willing to include the word "restricted" if you like.

Mr. VIEN: Is it your intention—and this was Mr. Cleaver's question—is it your intention to remove the restriction as to the amount of silver that can be offered as legal tender in Canada?

Mr. McGEER: I thought I answered that question categorically.

Mr. VIEN: I did not get it.

Mr. CLEAVER: Your question cannot be directed to a basis of silver used as legal tender 100 per cent within Canada and $5 outside of Canada.

Mr. McGEER: I am dealing with the currency as it is.

Mr. CLEAVER: Why restrict it to $5?

Mr. McGEER: I do not.

Mr. CLEAVER: Copper coins are legal tender up to 25 cents; nickel coins are legal tender up to $5; and silver coins are legal tender up to $10.

Mr. VIEN: You want to leave it at $10?

Mr. McGEER: I do not want to change that at all.

Mr. VIEN: Right.

By Mr. McGeer:

Q. The question I put before this discussion broke was, would there be any difference in the expansion of a silver currency in result in the field of inflation than would come from the expansion of bank deposits?

Mr. TOWERS: If I may answer that in this way; and I apologize for elaborating a question, Mr. McGeer; I think that question can be answered better if it is put this way: Would there be any difference between the situation which would result from expansion in silver currency restricted as it now is, or through the expansion of Bank of Canada notes?

Q. But bank deposits, I said?—A. I don't relate those two. I am sorry, but the expansion of—

Q. Now, Mr. Towers, just let me qualify my question, because I cannot see any confusion there. You have told us here, the other day, that bank deposits were the money upon which 95 per cent—or, that 95 per cent of our public and private business is transacted in Canada?—A. Yes; but, of course; bank deposits can only expand if additional Bank of Canada notes or deposits reach the hands of the chartered banks; and that was why I made that comparison as compared with silver.

Q. Now, I would ask you—and I would like to get my question answered if I can—what the result in the field of inflation would be if the inflatoin came through the issue of subsidiary coins, through an increase in the issue of subsidiary coins, or an increase in bank deposits?—A. An issue of subsidiary coins?

[Mr. Graham Ford Towers.]

Q. That is, silver money?—A. Silver money can only produce an increase in bank deposits to the amount of the additional issue of silver coin.

Some hon. MEMBERS: Hear, hear.

By Mr. McGeer:

Q. The increase in bank deposits will only increase bank deposits by the amount of the increase of bank deposits, wouldn't it?

Hon. Mr. LAWSON: That is obvious.

Mr. McGEER: You increase silver coin and necessarily that will increase bank deposits by the amount of that increase in the issue of silver coins; exactly the same thing takes place if you increase bank deposits.

Mr. LANDERYOU: No, if you increase the note issue.

Mr. McGEER: We are not dealing with note issue.

By Mr. McGeer:

Q. If I increase the issue of silver coins a thousand dollars it goes into circulation and comes back to the bank as bank deposits, and the bank deposits increase by that amount, do they not?—A. Yes.

Q. And if I increase bank deposits and they go out into circulation by the cheque system that cheque can be used for the purchase of bonds and the result is that we have an increase of $1,000 in our bank deposits whichever course we resort to?—A. In the case of the increase of bank deposits you mention, that arises from another cause; that result can only be based on as increase in cash reserves.

Q. Let me put it to you this way: The government issues $1,000 in bonds to meet bank liabilities, we will say; and it exchanges it for $1,000 in silver coins. That would be an increase in the money in circulation to $1,000, wouldn't it?—A. Yes.

Q. The government issues a $1,000 bond and takes in exchange for it a deposit in one of our banks; that would increase the bank deposit by $1,000; wouldn't it?—A. Yes.

Q. Now, if the government exchanged that bond for a bank deposit, you get back your $1,000 with inerest, don't you?—A. Yes.

Q. If the government instead of issuing the bond met the bank liability of $1,000 in silver money the cost to the government would be the cost of minting the silver bullion into silver dollars, would it not?—A. We have got right back, of course, to the remarks I made at the commencement of the meeting to-day, to which I can add nothing except that there is now this difference that the silver currency as issued could not be legal tender for us; therefore, it would not be eligible in chartered bank cash reserves; and therefore it could not provide the basis for a subsequent expansion in deposits.

Q. Yes?—A. Therefore, that removes certain of the inflationary features.

Q. Yes.—A. We then come, roughly, back to the point which was suggested by Mr. Tucker on February 16, and which was dealt with by the memorandum which I put on the record at our last meeting.

Q. Yes. Now, to come back to it, we now come back to the question of the depositor's liability. I mean, there is no question of a doubt about it; that the cost with respect to $1,000 in silver money would be far less than its money value?—A. Right.

Q. Yes. So that the actual mechanics of that operation of issuing the silver money would be cheaper to the government actually than it would be exchanging for a bank deposit; you will agree with that? The ultimate end might be different, but in the end it would be cheaper?—A. Immediately, at the time, it would be cheaper.

Q. At the time, it would be cheaper. Now the taxpayer comes in; with respect to every expenditure by the government he is the person ultimately responsible for the repayment of any of the debts the government creates; isn't that right?—A. Yes.

Q. Now, if the government issues interest bearing bonds and exchanges them for bank deposits, the taxpayer must repay?—A. And the taxpayer, of course, also receives the interest from the government.

Q. Quite true; but the taxpayer must repay, both the bond and the interest?—A. And he also receives the interest.

Q. We will deal with that later. The question I want answered is, that the taxpayer must repay the face value of the bond plus the interest charges, whatever they are?—A. Yes, he must repay the face value of the bond plus whatever interest charges there are.

Q. All right. We will deal with that a little later. If the banker takes that bond and exchanges it for a bank deposit and he receives all the interest paid, doesn't that increase the profits of the bank?—A. Not necessarily, because presumably he pays out again interest which he received, he pays it out in operating expenses and interest to the man who is the holder of the deposit.

Q. In any event I think we have come to the understanding that subject to what the taxpayer receives he must pay back $100 or $1,000 and interest payment; you will agree that that has to be repaid?—A. Yes.

Q. And it has to be repaid by the taxpayer?—A. Yes.

Q. Well now, if the government issues money in the form of silver the taxpayer doesn't have to pay it back, does he?—A. I would think that the taxpayer, regarded as the people as a whole, which perhaps is a fair statement, gives his silver or material to the government in return for a silver dollar; and, considering the government and the taxpayer as one, it is very difficult to get ahead of the game that way.

Q. But as a matter of fact the difference is simply this, isn't it, Mr. Towers; when the government issues an interest-bearing bond the proceeds of the interest-bearing bond are paid out of the taxpayers for materials, services and whatever they give the government?—A. Yes.

Q. So that there is no difference in what the government receives in that connection from what it would receive from the issue of silver dollars?—A. There might be this difference, of course, that in the first case we mentioned, presumably the ultimate holder of the deposit can get some interest on it.

Q. Yes?—A. In the case of the issue of silver dollars in considerable quantity, in a greater quantity than was needed, he might find that he could not.

Q. But that would only come when the redundancy of silver was so increased in volume that inflationary tendencies would have set in?—A. It might not be inflationary tendencies. It might simply be an effort to get away from silver, so to speak.

Mr. CLEAVER: I do not want to interrupt your train of thought, Mr. McGeer, but I should like to ask you a question.

The CHAIRMAN: Please stand up so that we can hear you.

Mr. CLEAVER: Yes. If you keep on issuing silver currency in large amounts, to the amount of, say, $35,000,000 which would obviously be far in excess of the public need for silver currency, when we restrict it to a ten dollar legal tender value, would you not encounter then the danger of the silver dollar being deflated or discounted down to the point of its actual metal value?

Mr. McGEER: I would say that would depend, of course, upon the inflationary results. You can never have any consequences of that kind in any currency until the volume of the currency in general circulation rises to the point where it disrupts the price level and brings about an uncontrollable

inflationary condition. If you will follow what I am going through, you will see what I mean. Bank deposits are not legal tender at all. When you come to what I am dealing with, you will find that it is the two forms of currency which we use, one of which has a restricted legal tender power; the other, that is bank deposits, has no legal tender power at all. As a matter of fact, from the point of view of currency with legal tender power, the bank deposit currency is the least—

Mr. LANDERYOU: Hear, hear.

Mr. MCGEER: —gifted of all our forms of currency, and yet it is with that form of currency that we do 95 per cent of the nation's business.

Mr. DONNELLY: Would you mind telling us what happened in the United States when they increased the silver currency over there?

Mr. MCGEER: What is that?

Mr. DONNELLY: What happened in the United States by their increase of silver currency over there?

Mr. MCGEER: I think it has failed lamentably to increase the price level. I mean, notwithstanding the fact that there has been an increase during the Roosevelt regime of, I think, more than a billion dollars in the silver currency medium of exchange over there, and notwithstanding everything that they have done or tried to do to get prices up within the range they had been, the 1928 price level—

Mr. LANDERYOU: 1926.

Mr. MCGEER: Or the 1926 price level—they started with 1928 and then went to 1926—those inflationary forces have not obtained at all.

Mr. DONNELLY: The silver dollar in the United States has not depreciated as compared with the other.

Mr. MCGEER: No.

Mr. TUCKER: It has legal tender value there.

Mr. MCGEER: It is made full legal tender.

Mr. VIEN: That is the point.

The CHAIRMAN: Order, gentlemen.

Mr. MCGEER: That is not the point at all.

Mr. TUCKER: You have stated that if the government issued a silver dollar and paid it out, the person it paid it out to would presumably pay goods and services for it, and you implied by that that in some way that was different from when they borrowed the money and paid it out. The difference, as I see it, is in real goods. If the silver dollar is paid out for goods and services, the taxpayer gives goods and services once. But if the money is borrowed and paid out for goods and services, the taxpayer gives goods and services when he gets the dollar from the bank deposit, and he has also got to pay it back when he comes to pay the dollar back again. So that in one case the taxpayer is paying twice, and in the other case the taxpayer is paying only once.

Hon. Mr. LAWSON: His services are discounted 50 per cent. When he gives 100 cents worth of services for 27 cents worth of silver, his services were discounted 73 per cent.

Mr. TUCKER: He is as a matter of fact, giving services in exchange for a bank deposit. In other words, what Mr. McGeer is getting at is that the government, by issuing fiat money to the extent, as I understand it, of 73 per cent, is gaining that much on the taxpayer—or, I should say, is gaining that much on the person they pay the money to.

Mr. TOWERS: I cannot quite follow that, because there seems to be a double operation there in respect to the taxpayer, in that alternative method you suggest.

Mr. TUCKER: Not in both cases.

Mr. TOWERS: In the case of the government borrowing the money for its requirements, as you say, it uses that money as it would any other money. Having borrowed the money it, in due course, shall we say, proceeds to pay it back. In the meantime it has paid interest to the taxpayers, who are the country as a whole; and, in due course, the full debt has to be paid back and it will tax the taxpayers, who are the country as a whole. So that what you have there is a shift between various members of the community. If it were done by the issue of currency to a point where the currency depreciated in value in terms of goods, again you have that shift between various members of the community as a result of the inflationary process. Or if it were done in another way, as you suggested on February 16, by issuing money and offsetting the inflationary effects, through forcing an increase in the legal minimum cash ratio, there again you have a tax on the people.

Mr. TUCKER: I should just like to state the point that I should like you to deal with. If you only increase your actual money in circulation—that is, where you issue it as I suggested—and that money you issue shall be only good for further bank deposits on a 100 per cent basis, so that when you issue the money in whatever way you suggested it, you only issue that much money, to the extent of, say, $1,000. There is no difference, in the inflationary effect, between the issuing of $1,000 and borrowing $1,000 and creating that bank deposit; that is, so far as its effect on prices is concerned. If the government does that, it avoids having to pay interest on that $1,000. So far as its being a tax on anybody is concerned, here is a point where I think your memorandum was incorrect, with all due deference. That $1,000 that it was issuing can be deposited in one of the chartered banks and used on a dollar for dollar basis to make loans or to make investments upon which the bank can earn interest. It may have to pay 1½ per cent to the depositor on that $1,000 when it is deposited, but it should be able to earn or does earn perhaps 5 per cent, 6 per cent or 7 per cent when it loans the money out. If you say that the banks cannot do business on that basis, I say to you that when they redeposit, when all their business is on that basis, or roughly all—because on all their time deposits they have to pay 1½ per cent—they do not have to pay any more on the $1,000 that is redeposited on this basis that I suggest than they would on any other basis. You suggest it is an unbearable tax on the banks. I suggest that there is no tax there at all. There is no difference, except this, that you prevent the banks from doubling up to the extent of ten to one. That is where I think there is a misconception.

Mr. TOWERS: I am very glad that you brought that up, Mr. Tucker, because your suggestion was that the thing might eventually be extended to go on, as you say, to a 100 per cent basis. On that basis, the banks, shall we say, would have two and a half billion dollars in deposits and two and a half billion dollars in cash. They could not make any loans. They could not make any investments.

Mr. TUCKER: I do not understand why they could not. We will suppose—

Mr. MCGEER: Mr. Tucker, may I suggest that even if we go into that now, it will also have to be gone into when we come to deal with the use of bank deposits; and that it is not helping us to deal with the question of inflation, as it has already been dealt with on the record. I mean, when we come to the use of bank deposits, then I think we would get into a full discussion about that.

Mr. TUCKER: Of course, you are dealing with bank deposits just now.

[Mr. Graham Ford Towers.]

Mr. McGeer: No. But we were dealing with bank deposits with reference to the question of inflation. That is what I wanted to get on the record.

Mr. Landeryou: I should like to ask Mr. McGeer a question. There seems to be some doubt in the minds of members here as to establishing and maintaining the value of the silver currency which you have suggested should be issued. Some have suggested that it would depreciate until it was only worth the intrinsic value of the silver content. What is the intrinsic value of the bank deposits that you have mentioned?

Mr. McGeer: Pen and ink, plus the credit value of the going concern activity.

Mr. Towers: The amount of assets of the bank.

Mr. Kinley: The confidence of the people.

Mr. McGeer: I think, if you will let me say this, the basis of all banking in our system is this—

The Chairman: Order, please.

Mr. McGeer: What I should like to say is, that if the committee would appreciate my point of view on basic values, or basis of values, it probably would have a little more sympathy with my ideas. I think the value of money, whether it be gold, silver, bank deposits or paper currency—just as I believe about the value of every other thing of representative or real worth—is dependent upon the going concern activity of the nation. If the going concern activity of the nation ceases, there is no form of fixed values that can have, in themselves, any value.

Mr. Landeryou: Let me put it this way—

Mr. McGeer: Therefore, I think we have covered the point which you raised, Mr. Landeryou—

Mr. Landeryou: No.

Mr. McGeer: —in stating this, that there can be no destruction of the value of silver currency or any other form of currency unless its issue, in relation to the general needs of the going concern activity of the nation, becomes redundant and in excess of what is needed. The amount of currency which must be issued in excess of the needs of the nation before the disastrous inflationary depreciation of values of money can come, is indicated by the German experiment in 1923, when that nation, organized as between banker and government, undertook, through a process of designed inflation, to liquidate its internal debts. To do that, the German bank, the Reichsbank, which controlled the issue of the mark, was compelled to increase the issue from thousands to tens of thousands, to millions, to billions, and then into trillions.

Mr. Landeryou: You suggest it was deliberate inflation on their part?

Mr. McGeer: Deliberate inflation and designed inflation. It is merely an example of what a government and a banking system, co-operating, can do, when they go out to liquidate internal debts by destroying the value of its currency. But what I should like to point out to the committee is that it was only when, through the deliberate action of the Reichsbank and its operator, who was then Dr. Schacht, it increased the issue of marks into figures which were such that I do not know that anyone has them, but they went into—

Mr. Landeryou: Trillions.

Mr. Coldwell: Astronomical figures.

Mr. McGeer: Yes, astronomical figures. But that shows you how difficult it is to destroy the value of currency by inflation; and at the same time the German program involved a deliberate raising of prices.

Mr. Landeryou: Hear, hear.

Mr. McGeer: Then, as contrasted with that experiment of 1923, we had the rittenmark. Then came the controlled program of inflation whereby Germany was able to put a system of regimentation and control into effect and to finance a new national power. So anyone who is a student of money, and who wants to get an idea of inflation, can examine that inflationary program of 1923. Let him examine the inflationary program of the rittenmark. Then let him examine the controlled inflationary program of 1933 to date. The ultimate outcome of that we do not know as yet, but we do know that there is such a thing as uncontrolled inflation and controlled inflation, which can be used to destroy the value of currency or which can be used to build the power of a nation.

Mr. Landeryou: Hear, hear.

Mr. McGeer: If I might come back to the point of the difference in inflation of silver money and bank deposits, I state as a fact that there would be no difference in inflationary results whether the increase of the medium of exchange came from the issue of subsidiary coin or whether it came from an issue of bank deposits.

Mr. Towers: Assuming that the increase in deposits in each case was the same, the effects, I assume, would also be much the same.

Mr. McGeer: That is all I want.

Mr. Vien: But Mr. McGeer, must you not distinguish between silver coin, the legal tender value of which is fixed at $10, and a silver dollar certificate issue which is legal tender to the full face value of the certificate?

Mr. McGeer: Might I just say this—

Mr. Howard: Could we just hear Mr. Towers' answer?

Mr. McGeer: He said there would be no difference providing the volume of bank deposits increased to the same amount. I take that to mean,—to clarify it for the benefit of members of the committee,—providing the volume of the medium of exchange in circulation increased in the same proportion from the issue of silver money as it did from the issue of bank deposits?

Mr. Towers: That is true. The part that I did not deal with, of course, was the position of the banks, in the case of the additional issue of silver. I left that aside, thinking that you did not want to deal with it.

Mr. McGeer: No. I think we are dealing with one thing. I should like to answer Mr. Vien's question. If I were dealing with an issue of Bank of Canada notes, which is full legal tender, and were contrasting with that an issue of subsidiary coin, which was only part or limited legal tender money, then it would be necessary for me to show the difference, as you suggest, resulting from the use of legal tender money restricted and legal tender money unrestricted. In this instance I am dealing with two forms of medium of exchange, one, bank deposits which are not legal tender at all, and the other subsidiary coin which is partially legal tender. If I might get my idea before the committee, the issue of bank deposits has less value to the receiver of bank deposits than issuing legal tender money in the form of subsidiary coin, because bank deposits need not be accepted by anybody for any amount.

Mr. Cleaver: What do you mean by "the issue of bank deposits"? Do you mean a person going into a bank and making a loan and then depositing the money in the bank?

Mr. McGeer: No; I mean that a bank deposit can be created in this way: The government can take a bond to the bank and hand that bond to the bank as the bank's property and receive an exchange from the bank, an entry in the banker's books, which is a credit entry, giving to the government a deposit value of the face value of the bond or purchase price.

Mr. Cleaver: In other words, the government borrows the money?

[Mr. Graham Ford Towers.]

Mr. McGeer: It exchanges the bond for a credit liability in the bank which the bank creates on a legal reserve of $5 in cash or $100. In other words, the bank receives from the Bank of Canada $100 in legal tender cash. Under banking practice the bank can issue a deposit against that up to the value of $1,000? Is that not right?

Mr. Towers: I would not put it quite that way. You mentioned that the bank might acquire investments or loans and as a result of doing so that would add to its deposits by an equivalent amount assuming the recipient will leave the money with the bank. But may I point out two things: One is that the banks are forced to pay their depositors in legal tender if they so demand; and, two, that process of the government, so to speak, borrowing from banks or selling bonds to them which results in an increase in the bank's deposits, should hardly be regarded as a continuous one or as the way in which the government normally does its financing. That may happen and that does happen during a period of monetary expansion. Whether it happens or not of course depends on the central bank. But regarded as a way in which the government does all its financing or as a continuous process, would get us into quite a wrong conception. As a matter of fact, by and large, that process has not taken place since the end of 1936, and we are now in 1939.

By Mr. Landeryou:

Q. You say this procedure had happened before 1936; in other words, they have been trading that credit at the commercial banks?—A. The other way of putting it, is to say that the banks have added considerably to their investment portfolio.

Q. The credit they use to purchase these bonds is not the bank deposits or the savings of the people, it is a credit created by the bank?—A. No, it is that money which is now the savings of the people, so to speak. The bank in purchasing the bond places, shall we say, $1,000 to the credit of the government, if a process of expansion is going on, otherwise, the bank would not purchase additional bonds.

Q. Do they use the people's savings to purchase that bond?—A. I would put it the other way. I would say they purchase the bond by placing $1,000 to the credit of the government. The government spends the money. The people who receive that money put it into their savings accounts with the banks. Those savings accounts then are an asset of the depositors but a liability to the banks. Against that deposit the bank will hold $1,000 in government bonds so that it can respond to the liability if need be.

Q. Yes, but I cannot get the question over to you. I am not suggesting that there is not a $1,000 bond behind the deposit. It may be in the bank. But in the first instance, when the government delivers a $1,000 bond to the bank what does the bank use to purchase it with? Is that the creation of additional money? —A. It is the creation of additional money.

Q. And it is costless to the bank the moment they create it. I am not talking about where they pay interest on deposits, but at the moment when they create it?—A. No, it is the assumption of a $1,000 liability by the bank.

Q. In other words, what stands behind the $1,000 bond that the government gives to the bank?—A. The credit of the country.

Q. The word of the people to pay?—A. Yes.

Q. Then on the word of the people the bank monetizes that for $1,000?—A. Roughly speaking, yes.

Q. Then the money is created by the bank upon the word of the people to pay in the future a certain amount?—A. I wonder if it would be reasonable to suggest that we should always refer to it as creating a liability. The bank assumes $1,000 liability.

By Mr. Tucker:

Q. They exchange liabilities?—A. Yes.

By Mr. Landeryou:

Q. You say, in the final analysis, they have created a liability. It is the liability of the people, though, in the final analysis.—A. The asset of the bank is the liability of the people. The liability of the bank is the asset of the people.

Mr. TUCKER: They exchange liabilities. The bank assumes an obligation to pay $1,000. It has always beat me to understand why the government should exchange liabilities like that and pay the bank at its own creation a fee for monetizing its credit.

By Mr. McGeer:

Q. This is an argument, after all, gentlemen, and what I am trying to get on the record is the distinction, if there is any, between the inflationary result by the increase of the volume of medium of exchange through the issue of silver currency as contrasted with the result of increasing the volume of medium of exchange by increasing the bank deposits?—A. As I said before, if the issue of additional silver currency results in, say, an increase of $100,000,000 in bank deposits, or, comparing with the other method, if as a result of a policy of monetary expansion, or whatever reason you like to put, that produces an increase of $100,000,000 in bank deposits, the increase in each case is the same. I, naturally, see no difference. Although in the silver case the bank will be holding that $100,000,000 of non-legal tender silver,—restricted legal tender silver.

Q. If it increases $100,000,000 of bank deposits that lie in the savings accounts, they are also stagnant of their own weight, are they not? If the increase in bank deposits, independent of the issue of silver money, results in a surplus of bank deposits which lie in the savings bank accounts, they also are dead, are they not?—A. Yes.

Q. No deader than an excess of silver currency would be?—A. The facts are two; with the additional issue of silver currency you have your increase in bank deposits. Those may be dead. Under the other system you also have a similar increase in bank deposits. Those may be dead. I see no difference between those things under similar circumstances.

Q. I want to come down to the expansion of bank deposits which have been very substantial in the last seven years; is that not so?—A. Yes.

Q. At the bottom of the depression our Canadian bank deposits totalled $2,322,000,000?

Mr. VIEN: What are you reading from?

Mr. McGEER: Page 21 of the February, 1939, statistical summary of the Bank of Canada.

Mr. LANDERYOU: Could you go back further than that?

Mr. McGEER: I shall go back to 1914. You will find that figure set out in the statement which I had printed in the record of our last meeting. At pages 21 and 22 in the statistical summary of the Bank of Canada for February, 1939, the total of Canadian bank deposits was $2,322,000,000?

The WITNESS: Including foreign deposits.

By Mr. McGeer:

Q. Yes. Then the $312,000,000 would reduce— —A. The Canadian deposits in that second year—$1,958,000,000.

Q. And in 1939 our deposits had increased to $2,954,000,000?—A. Or again using the Canadian figure—$2,514,000,000.

[Mr. Graham Ford Towers.]

Q. Which would give us a round figure increase of $600,000,000?—A. Close to it.

Q. So that we have had an expansion of bank deposits in Canada at the rate of $100,000,000 a year over that period. Is that correct?—A. Yes.

Q. Has that increase of $100,000,000 a year produced any inflationary consequences?

Mr. CLEAVER: No; but has it done any good?

Mr. McGEER: We will deal with the other feature.

By Mr. McGeer:

Q. Has it produced any inflationary consequences?—A. The price-level is slightly higher than it was at the depths of the depression, but that it has produced any distinctly inflationary consequences, no, not so far.

Q. In 1932 the holdings of dominion and provincial and other securities was $696,000,000, was it not?—A. Just about that in 1932.

Q. That figure increased in January, 1939, to $1,454,000,000?—A. That includes other securities as well, apart from dominion and provincial.

Q. Well, the total of the dominion and provincial securities in 1932 was what?—A. $490,000,000, and at the present time about $1,200,000,000.

Q. This security holding is in the main dominion and provincial?—A. Yes.

Q. Am I right in concluding, Mr. Towers, from those figures, that the increase in the Canadian bank deposits since 1932 resulted from the acquiring of dominion and provincial securities during the same period of time by the banks?—A. Yes.

Q. So that we have since 1932 increased our dominion and provincial debt to the banks by just the amount that they have increased their bank deposits? Is that right?—A. I am sorry I did not get that question, Mr. McGeer.

Q. Since 1932 our dominion and provincial debts have been increased in so far as they are held by the banks by just the amount of the increase in the bank deposits?—A. That is approximately the case, yes.

Q. Now, the interest rate is paid to the banks, is it not?—A. Yes.

Q. All that has happened in that transaction is that the banks have taken dominion and provincial securities into their portfolios and increased their credit liabilities through their bookkeeping entries, plus the liabilities on them that these bookkeeping entries incur?—A. Yes; I assume we take the bookkeeping entries seriously as a liability, though.

Q. Oh, absolutely. Now I am going to deal with that question of liability, because you put quite a lot of stress on it. For instance, a few minutes ago you told me that a holder of a bank deposit, if he demanded it, could secure legal tender cash?—A. Yes.

Q. You told me that, did you not?—A. Yes.

Mr. VIEN: Do you agree with that?

Mr. McGEER: I certainly do not. Theoretically that may be so. But I want you to just follow this kind of a proposition.

By Mr. McGeer:

Q. The banks' liability to the Canadian depositors as of January, 1939, was $2,501,000,000 exclusive of their liability on foreign deposits?—A. Yes.

Q. That is all convertible into legal tender cash?—A. Yes.

Q. How much legal tender cash have the banks?—A. $269,000,000.

Q. How much legal tender cash, under the Bank of Canada Act as it stands now, can you issue as the Bank of Canada?—A. How much?

Q. On your gold reserve?—A. The gold reserve provision, as you know, is 25 per cent of our liabilities in the form of notes and deposits.

Q. Yes, but you have a certain holding of gold?—A. Yes; that is a little over $200,000,000.

Q. How much is the maximum of legal tender cash that you can issue for banking purposes on that reserve of gold?—A. A total of $800,000,000.

Q. That is the maximum amount that you can issue?—A. Subject to the Governor in Council suspending the gold reserve requirements.

Q. And if you had that issue you would have nothing but a straight paper currency?—A. The ratio of gold reserve would be lower. Presumably the gold would still be there.

Q. Can you tell me how you can convert $2,501,000,000 of bank deposits into $800,000,000 which is your maximum?—A. Subject to the suspension of the gold reserve requirements. In the event of all the depositors in Canada wishing to withdraw their deposits from the banks in legal tender, and presuming they put it in their mattresses, because that is the only reason people do those things, I would say that ways and means would be found of filling their requirements, by suspension of the reserve provision if necessary.

Q. And by issuing a straight national paper currency?—A. Right. It would have no effect from a national point of view because people would simply put it in their mattresses or in holes in the ground.

Q. Is this not a correct statement, that under our system we legalize a method of trading long in credit and short in legal tender cash and gold reserves as the basis of operating our present debt-claimed monetary system?—A. That is a phrase that I am not familiar with—it is my own stupidity, I am sure.

Q. I will eliminate the "debt-claimed" part.—A. Right. The business of banking always has involved operating with a small amount of cash, what the bank thought was safe in relation to demands likely to be made upon it; and implying the possession of certain assets and the assumption of certain liabilities. That is the business of banking.

Q. Certainly.—A. Properly administered, it is the business of banking; that is all that can be said about it.

Q. What I want is the fact. Is it true that we have legalized a system of trading long in credit and short in cash and gold as the basis of our operating system?—A. Long in liability, if that is what you have in mind by credit—long in assets other than cash, and a small amount of cash. And that is banking.

Q. When we come to the thing which we actually use for money in the case of a government bond, it is the credit of the bond that is selling; that is the money, isn't it?—A. A bank may acquire government bonds as part of its assets, or it may acquire a loan; it will have a deposit liability on the other side. If the bond is good why it is all right; and if it is not, it is too bad for the bank.

Q. Under this system, where the banks can issue a 10 per cent reserve of cash to credit liabilities in the form of a deposit to the full value of that bond, it is the value of the bond that is taken; that is banking?—A. It is the value of the asset that is behind the liability; yes.

Q. Yes. So that all the banker does is to monetize the government's credit when it requires a government bond?—A. Within limits imposed by law and by the operations of the central bank, yes.

Q. So that the banker does not need money to buy a government bond. For instance, if I go to buy a government bond I have got to pay $1,000 in cash, I have got to put it up in cash; the individual has got to have the required $1,000 and have it on deposit in the bank, or have it in his hand before he gets the bond.—A. Unless your credit is good, yes.

Q. Is there any way by which I can as an individual exchange my credit for a bond?—A. Individuals can't borrow from the government; of course, they can borrow from other sources.

[Mr. Graham Ford Towers.]

Q. No, no; I have to have cash when I purchase a bond.—A. From the government.

Q. Before I can get a bond as an individual I have got to have accumulated the equivalent value?

Mr. Vien: Or borrow it.

Mr. Towers: Or borrow from a bank.

Mr. Landeryou: You might be able to get it by way of a loan.

Mr. McGeer: If I borrow from the bank I have got to have something accumulated on which to borrow. I know a little about that. I had to acquire $4,000 or $5,000 of security for every dollar I want to borrow before I can get it from a bank.

The Chairman: Order, please.

Mr. McGeer: Where it is in the form of assets which are convertible into money. I have got to have something that can produce $1,000 in cash before I can get a $1,000 government bond; but the banker under our system can do it with $100 in cash. That is our system.—A. Provided that the depositor is willing to leave his money on deposit with the bank.

Q. And, he is?—A. He is, because the bank is solvent.

Mr. Tucker: That is because the government is willing to come to their rescue and lift the gold reserve.

Mr. Towers: As Mr. McGeer said earlier, surely we have to regard these things as going concerns; the same thing would apply to any of our factories, or to any big merchandising establishment. They have to carry a certain amount of liability in order to be able to do business. I think in connection with all businesses, that, where they are solvent, we have to regard them as going concerns.

By Mr. Tucker:

Q. Isn't it true, Mr. Towers, that that is what would happen if there were any general run on the banks with depositors demanding their money?—A. Yes.

Q. And it was so in the United States where they operated under a system practically the same as our Finance Act; and when Mr. Roosevelt came out and said that they were willing to spend any amount of money necessary to pay the enormous sums on deposit the situation was cleared up?—A. Yes.

Q. And is it not a fact that because people have complete confidence in the banking system they do not demand their money; just as in the United States they are convinced that if necessary the government through the Bank of Canada, if a run of major proportions developed, would provide a sufficient amount of money to supply depositors with the last cent they have on deposit; isn't that true?—A. I think people have not been nervous about the banks themselves. I doubt very much if millions of them have ever thought about the subject of whether we would afford support; but, if the case arose, I cannot see why we should not.

Q. But that remains true, that the government through the Bank of Canada stands behind the banking system of this country; and that is why they are able to do it. In the final analysis we are behind the banking system.—A. I would say that so long as the banking system operates in a proper way and maintains its solvency, speaking of all individual banks, that if one assumes that because of an unreasonable cause or fear that these banks are being asked for legal tender cash, being solvent institutions, and not being pressed through any fault of their own, then I would certainly say that the central bank would be behind them absolutely.

Q. And do you suggest in the event of the outbreak of a war causing a run on the banks, with everybody wanting their money at once, with the

banks quite solvent, do you suggest for one moment that you would not be behind the banks in a crisis like that?—A. Of course, and there would be no difficulty in putting up security.

Q. Would you not go into the bank and ascertain its security position?—A. That is being done constantly by the Inspector General of Banks, so that the information is available at any time.

Q. And provided, as you say, that they carry on in a reasonable way, the government will pretty well stand behind the banks.

Mr. McGeer: If I might return to my question, this is it:

By Mr. Landeryou:

Q. Even with the banks being solvent, in the case of a run of major proportions, what would happen if the government refused to suspend payments in full?—A. You mean, if the central bank refused to come to their assistance in the event of a run?

Q. Yes, if it refuses to set aside the gold provision?—A. Assuming that the demands were large enough, or that the gold production was restricted—

Q. Would they be solvent?—A. Yes, they would be solvent, assuming they were solvent before; but they would not be able to make payment in legal tender in full.

Q. What is the case if the banks are insolvent?—A. Perhaps we meet a difficulty there. The bank must, of course, be able to meet all its liabilities in legal tender to the extent that demands are made upon it, or else close its doors. In that case it is, so to speak, insolvent in the sense that you mention.

Q. Yes.—A. But, assuming that there was nothing wrong with its affairs before, that these demands were wrongly inspired, I assume in due course it would be able to liquidate its liabilities, so to speak, 100 cents on the dollar.

By Mr. McGeer:

Q. I think you will agree with this proposition, we have never experienced in our modern banking system, but if it so happened that people lost faith—A. Fortunately that does not happen in Canada.

Q. If it did happen in Canada, if the same thing were to happen here as happened in the United States—?—A. We would certainly deal with the situation.

Q. And you would deal with it in one of two ways, by an adjustment of your legal tender, cash that would be supplied to meet the demands of the public to allay their lack of confidence?—A. Exactly.

Q. If that did not allay their lack of confidence you would declare a bank holiday and straighten the thing out by parliament?—A. I would be inclined to think our recommendation would be that the gold reserve provision would be suspended, and the thing would be carried right to a conclusion.

Q. And if that did not stop the people from demanding their cash and wrecked the bank system?—A. By the time they have taken out all their deposits in cash that portion of it is over.

Q. The banking system is gone, as far as the deposit end of it is concerned, but in that process it is the action of the central bank and the dominion government that provides the cash to meet the dominion's obligation to the banks?—A. Yes, against the pledges of security by the banks.

Q. The banks would transfer their security to you and you would issue money against that?—A. Right.

Q. And if there were any shortage in these assets in making up the amount of cash that was required, and there was an insolvency the banking system would lose?—A. Right.

[Mr. Graham Ford Towers.]

Q. So that the simple proposition of our banking system today is that its main security is the power of the Parliament of Canada to authorize a bank to get an issue of money, its whole legal tender money in Canada, independent of the gold reserve?—A. I would say that parliament has, first of all, authorized the banking system to operate as it does.

Q. Yes?—A. Secondly, they have set up an organization which would determine monetary policy and therefore guide the action of the banks in that respect; and, thirdly, they have provided a mechanism which, in case of loss of confidence, would supply the safeguard you mention.

Q. Then we get down to this proposition, increase the holdings of public securities—dominion and provincial. You increase the bank's deposit, clearly, with the acquisition of that type of security, and the chartered banks may increase their deposits to the value of those securities, as this record shows?—A. Provided that the action of the Bank of Canada was such as to increase their cash reserve and enable them to do so; which, as you will see by this record, over the years, we have done.

Q. Yes. If you increase that value of cash reserve independently of what the banks have been doing in the way of acquiring dominion and provincial securities you are increasing their deposits?—A. The first step was the increase in the cash reserve. Then that was followed by an increase in the holdings of securities by the banks, which in turn brought about an increase in deposits. The first step rests right here.

Q. Yes, and that step was mainly through your purchase of gold, wasn't it?—A. No; it was through our purchase of additional government securities.

Q. But the increase in the volume of Bank of Canada notes that went into circulation was due to your gold purchasing policy in part, was it not?—A. No, because we did not add to it until very recently. We did not add to our original stock until December of last year.

The CHAIRMAN: Just before the committee dispurses, is it your wish to meet tomorrow morning?

Mr. TUCKER: Yes, I think we should.

Some HON. MEMBERS: No.

The CHAIRMAN: It appears as though the majority of the members of the committee would prefer not to sit tomorrow. Perhaps we had better adjourn to meet again at the call of the chair.

The committee adjourned at one o'clock p.m. to meet again at the call of the chair.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 5

FRIDAY, APRIL 14, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

FRIDAY, April 14, 1939.

The Standing Committee on Banking and Commerce met at 11 a'clock a.m.

Members present: Messrs. Baker, Bercovitch, Clark (*York-Sunbury*), Coldwell, Deachman, Donnelly, Fontaine, Jaques, Kirk, Lacroix (*Beauce*), Landeryou, Leduc, Macdonald (*Brantford City*), McGeer, McPhee, Mallette, Perley, Quelch, Ross (*Middlesex East*), Stevens, Thorson, Tucker, Vien, Taylor, Woodsworth.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

In the absence of the Chairman, Mr. Ross (*Middlesex East*) moved that Mr. Vien act as Chairman.

Motion carried and Mr. Vien took the Chair.

Examination of Mr. Towers continued.

At 1 o'clock the Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

OTTAWA, April 14, 1939.

The standing committee on Banking and Commerce met at 11 a.m.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

The CLERK: Gentlemen, in the absence of the chairman this morning, would someone move for the appointment of a deputy chairman?

Mr. ROSS (Middlesex East): I move that Colonel Vien act as deputy chairman.

Hon. Mr. STEVENS: I second the motion.

The CLERK: It has been moved and seconded that Colonel Vien act as deputy chairman. Are there any other nominations? I declare the motion carried.

The DEPUTY CHAIRMAN: Gentlemen, I thank you for the confidence which you have reposed in me. I know that I shall not be able to discharge my duties successfully except with your co-operation, but in that regard I am quite sure you will not fail me.

On the 5th of April, as will appear from report number 4 of our proceedings, Mr. McGeer was interrogating Mr. Towers. Are you quite through with your line of questioning, Mr. McGeer?

Mr. McGEER: Am I quite through?

The DEPUTY CHAIRMAN: With the line of questions that you developed?

Mr. McGEER: No.

The DEPUTY CHAIRMAN: Do you desire to carry on now?

Mr. McGEER: Yes.

The DEPUTY CHAIRMAN: Your last two questions were:—

> Q. Yes. If you increase that value of cash reserve independently of what the banks have been doing in the way of acquiring dominion and provincial securities you are increasing their deposits?—A. The first step was the increase in the cash reserve. Then that was followed by an increase in the holdings of securities by the banks, which in time brought about an increase in deposits. The first step rests right here.
>
> Q. Yes, and that step was mainly through your purchase of gold, wasn't it?—A. No; it was through our purchase of additional government securities.

We left it at that.

By Mr. McGeer:

Q. And your answer to that question, Mr. Towers, was?—A. The answer to that last question was "No"; because we did not add to it, that is, the gold stock, until very recently. We did not add to our original stock until December of last year.

Q. You do purchase the gold product of Canada, do you not?—A. The dominion government purchases the product of the mines, and they ask us usually to act as their agent in shipping it to the market where they can obtain the best price.

Q. How is it paid for?—A. It is paid for in Canada by dominion government cheques on their bank account.

Q. On their bank account?—A. On their bank account. The gold itself is shipped to New York or London, as the case may be, wherever the best price is obtainable. Latterly that has always been New York. The dominion government then receives in New York the purchase price of the gold in the form of balances in an American bank. The dominion government then uses such portion of those United States funds as it may require to meet its interest and other commitments in the United States or for the purpose of buying sterling to meet its interest and other commitments in London. It then has a certain amount of United States funds left over because its foreign commitments, to which I have just referred, are not as large as the total proceeds of gold sales. Therefore, some of these funds are surplus to those requirements. The dominion government then instructs us to sell that surplus in the exchange market, thereby converting it into Canadian dollars.

Q. So that the only way, as you say, by which the Bank of Canada money goes into circulation is in the purchasing of dominion and provincial securities; is that correct? That is, outside of your advances to the banks?—A. No, that would not be the only way. I did mention that we have since last December acquired some additional gold. It shows on our balance sheet as about $25,000,000.

Q. When you acquired that additional gold, how was it paid for?—A. We paid for it in the same way as we would pay for additional securities or any other assets which we might buy by issuing a cheque on ourselves. The net result of that on our balance sheet is this: our assets increase by the amount of the securities or gold purchased; the cheque which we issued on ourselves is presented at a bank by the person to whom it was given and deposited by the bank at the Bank of Canada. That deposit, of course, increases our deposit liability. So our assets in the case of a purchase of, say, $25,000,000 additional gold, will go up $25,000,000 and our liabilities will increase $25,000,000.

Q. But if you issued a cheque to a gold-mining company and the gold-mining company deposited that cheque with its chartered bank, then that chartered bank would present the cheque for payment or for deposit to their account which would be the same thing?—A. That is it.

Q. But that would give the bank which received the Bank of Canada cheque from the gold producer a claim on the Bank of Canada for legal tender cash.—A. Yes.

Q. And the bank could use that money which came into its possession through the deposit of the gold producer as a reserve for the issue of bank deposits and increase them under our law on the basis of twenty to one.—A. It would increase the bank's cash reserve and give the bank latitude to increase its holdings of dominion or provincial securities, or its loans; in turn increasing its deposits; yes.

Q. And under our Act on the basis of twenty to one?—A. Legally, yes. In fact, of course, we do not issue our cheques to the gold producer.

Q. To whom do you issue them?—A. We do not buy the gold; the dominion government buys the gold. When we have occasion to buy some gold, we buy it from the dominion government.

Q. And you give a cheque to the dominion government?—A. And we give a cheque to the dominion government which goes into the dominion government's deposit account. The dominion government, of course, is spending those funds so that eventually an increase in our gold holdings, if it is not offset by the decrease in some of our other assets, will result in an increase in the chartered banks' cash reserve.

Q. You are conversant, I take it, with the MacMillan report?—A. The Canadian?

Q. The British MacMillan report and the Canadian report?—A. Yes.

Q. You will recall that they dealt with the manner in which bank deposits are created, in that report?—A. Yes.

Q. I draw your attention to section 74, which is at page 34 of the report:—

> "It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit in its books, which is the equivalent of a deposit."

Do you find any fault with that statement?—A. None whatever.

Q. As it pertains to banking practice as it is carried on in the dominion of Canada under our banking system?—A. No.

Q. As a matter of fact, that is a true statement of the manner in which the bulk of Canadian bank deposits are created, is it not?—A. That is banking all the world over, yes.

Q. And the same in the United States?—A. Right.

Q. As a matter of fact, subject to the difference in the amount of cash reserve required, the method of creating bank deposits is the same in Great Britain, Canada and the United States; is it not?—A. Yes.

Q. Under the British banking system there is no cash reserve required at all by law, is there?—A. That is right, although the British banks operate usually on a 10 per cent basis, the same as the Canadian banks operate.

Q. Did you ever hear of this 10 per cent basis before the MacMillan report was published?—A. Yes.

Q. Just carrying along with section 74 as to the manner in which deposits are used, or referring to the manner and use of deposits, the report says:—

> "A simple illustration, in which it will be convenient to assume that all banking is concentrated in one bank, will make this clear. Let us suppose that a customer has paid into the bank £1,000 in cash and that it is judged from experience that only the equivalent of 10 per cent of the bank deposit need be held actually in cash to meet the demands of customers; then the £1,000 cash received will obviously support deposits amounting to £10,000."

That is our practice, is it not?—A. Yes.

Q. And our law goes even further?—A. Yes.

> Q. Suppose that the bank then grants a loan of £900; it will open a credit of £900 for its customer, and when the customer draws a cheque for £900 upon the credit so opened that cheque will, on our hypothesis, be paid into the account of another of the bank's customers. The bank now holds both the original deposit of £1,000 and the £900 paid in by the second customer. Deposits have thus increased to £1,900 and the bank holds against its liability to pay out this sum (*a*) the original £1,000 of cash deposited and (*b*) the obligation of a customer to repay the loan of £900. The same result follows if the bank, instead of lending £900 to a customer, purchases an investment of that amount. The cheque which it draws upon itself in payment for the investment is paid into the seller's bank account and creates a deposit of that amount in his name. The bank, in this latter case, holds against its total liability for £1,900 (*a*) the original £1,000 of cash and (*b*) the investment which it has purchased. The bank can carry on the process of lending, or purchasing investments, until such time as the credits created, or investments purchased, represent nine times the amount of the original deposit of £1,000 in cash.

A. If that original deposit was in cash; yes.

Q. I mean that is the hypothesis.—A. Yes.

Q. And deposits are used in that way to finance the purchase of securities by the bank?—A. I think that what you have read there states the contrary. In other words, so long as people are willing to take the cheques which it issues and leave the proceeds on deposit with the bank, that bank can acquire additional assets in the form of securities or loans until it has built up a deposit structure which bears a relation of ten to one to the cash heud. I think perhaps it is a question only of phraseology, but rather misleading to say that the bank uses its deposits to buy things, because, of course, the deposits are its liabilities.

Q. Yes, but according to this report, which I think is recognized throughout the world as probably being—to use Sir Josiah Stamp's own phraseology—"the best work on monetary economy in print to-day"— —A. I agree absolutely with what you have read from the report.

Q. —that report states definitely that the bulk of deposits are made and developed by issuing credit entries in the bankers' books against a reserve of cash of 10 per cent including cash deposited by depositors?—A. I do not quite see the latter distinction.

Q. Let me read this again.—A. A cash reserve of 10 per cent—that really is all that need be said about that.

By Mr. Macdonald:

Q. But the deposits are all a liability?—A. The deposits are a liability, yes.

By Mr. McGeer:

Q. But I am dealing with this particular statement in the report:

> A simple illustration, in which it will be convenient to assume that all banking is concentrated in one bank, will make this clear.

Let us suppose that a customer has paid into the bank £1,000 in cash, that is £1,000 in cash which does not belong to the bank at all, according——A. Excuse me; it does, Mr. McGeer. As soon as the customer has paid it in and has received a credit on the books of the bank for the £1,000, that deposit of the customer with the bank is the customer's asset. The cash becomes the bank's asset.

Q. Becomes the property of the bank?—A. Right.

Q. And that is because of the banking practice?—A. Yes.

Q. And all the bank gives to the customer to transfer that cash which he has deposited from his ownership to that of the bank is a credit entry in the bank's books?—A. Do those entries by force of law and custom mean nothing?

Q. I am not saying that they do not mean anything; I am saying that that is what happens. You agree with me that that is a fact?—A. It must be clearly stated that the customer has received value.

Q. No, no; I asked you a plain question, if it was not a fact that when a customer of the bank deposited £1,000 in cash that that cash became possessed by the bank and that what the customer received in exchange for it was a credit entry in the banker's books which made the bank liable to the depositor for £1,000?—A. Right. The bank had bought his cash in exchange for a deposit.

Q. In other words, the bank exchanged for £1,000 in cash a credit entry which constituted a promise to pay £1,000 on demand?—A. Right; a promise to give back that £1,000 in cash whenever the depositor wanted it.

Q. Not quite that.—A. Well, £1,000 of legal tender.

[Mr. Graham Ford Towers.]

By Mr. Macdonald:

Q. Is it not more of a loan? You said it was a purchase?—A. In a sense you might more accurately describe it as a loan.

Q. The bank pays interest on it?—A. Yes, often; not always.

By Mr. McGeer:

Q. It may or may not?—A. That is by arrangement with the customer.

Mr. McGeer: I do not quite follow what you mean, Mr. Macdonald, by saying that it is more of a loan. It is a straight transfer of one type of asset in exchange for another type of asset. It has no semblance or feature either in fact or in law of a loan.

Mr. Macdonald: Is there not a promise to repay on demand.

Mr. McGeer: That is not a loan; that is a bill, which is a very different thing. If I took a stock of goods and put them into a storehouse I could promise re-delivery of those goods whenever I called for them, but nobody would suggest that that was a loan.

By Mr. McGeer:

Q. Now, Mr. Towers, I should like you to follow this through: The promise to pay a depositor a thousand pounds on demand requires in England no security in law at all?—A. No legal minimum cash reserve.

Q. No. I mean, outside of the promise of the bank to pay, there is no other liability to pay?—A. No, but, of course, I assume that they keep an eye on the banks to make sure that that promise can be fulfilled.

Q. Of course, you know that in the course of banking in England some 600 have gone under where that promise to pay was not fulfilled?—A. That is quite true. Perhaps the experience in that respect has been much better in the course of our generation.

Q. Yes, down to where it could be handled properly, that risk has gone to some extent. But in our parliament we call upon the banker to hold at least five per cent of his promises to his depositors in legal tender cash.—A. Yes.

Q. And that is all, is it not?—A. That is all that he is legally required to hold in legal tender cash.

Mr. Macdonald: But the depositor can claim 100 per cent?

Mr. McGeer: Under what section can the depositor claim 100 per cent?

Mr. Macdonald: I am not familiar with the section. It is a question I am asking you; I am not finding fault.

Mr. McGeer: I thought you said that a depositor could claim 100 per cent.

Mr. Macdonald: I was asking you that question?

Mr. McGeer: Pardon me; I thought you stated he could, which is contrary to the fact. I know he cannot. He has not the power to claim anything.

Mr. Towers: Mr. McGeer, the depositor has always the right to demand legal tender from the chartered banks for 100 per cent of his deposits.

By Mr. McGeer:

Q. He has no right to ask the bank to hold any reserve for his deposits?—A. Oh; that is another matter.

Mr. Macdonald: I said he could demand the return of his deposits.

Mr. McGeer: He can demand the return of his deposits any time he wants to.

Mr. Macdonald: And all the depositors can do the same thing.

Mr. McGeer: And all the depositors can do the same thing. But if all the depositors did the same thing at the same time the promise of the bank to pay in legal tender cash could not be fulfilled.

Mr. TOWERS: I would disagree with that.

The DEPUTY CHAIRMAN: Mr. Dunning, I think, made a very clear statement the other day in the house on that matter.

Mr. MCGEER: I read it very carefully; I was very much interested in it. I am going to question that statement very definitely.

The DEPUTY CHAIRMAN: Would it not be better to clear it up now?

Mr. QUELCH: That statement was contradicted by Mr. Towers the last time we met.

Mr. TOWERS: Not to my knowledge.

Mr. QUELCH: I shall read the statement. I am referring to page 116 of the report of the proceedings of this committee on Wednesday, April 5, 1939:

> Q. Can you tell me how you can convert $2,501,000,000 of bank deposits into $800,000,000 which is your maximum?—A. Subject to the suspension of the gold reserve requirements. In the event of all the depositors in Canada wishing to withdraw their deposits from the banks in legal tender, and presuming they put it in their mattresses, because that is the only reason people do those things, I would say that ways and means would be found of filling their requirements, by suspension of the reserve provision if necessary.
>
> Q. And by issuing a straight national paper currency?—A. Right.

Now referring to Mr. Dunning's statements on page 2879 of Hansard of April 11, 1939:

> Mr. DUNNING: The Canadian banks under the present laws would positively be able to secure the cash to meet immediately the demands of their depositors.
>
> Mr. LANDERYOU: They would be able to raise it; I do not question that.
>
> Mr. DUNNING: No, secure it.
>
> Mr. LANDERYOU: How would they secure it? By going to the dominion government and asking them to print the money?
>
> Mr. DUNNING: No, no.
>
> Mr. LANDERYOU: Could they secure the cash without a suspension of the gold clause?
>
> Mr. DUNNING: Positively yes.

Mr. Towers has contradicted that.

Mr. TOWERS: May I suggest that Mr. Dunning perhaps can hardly be expected to keep in his head at all times the figures in our balance sheet.

Mr. QUELCH: Your statement contradicted Mr. Dunning's statement.

Mr. TOWERS: To repeat that, it would be possible to provide the facilities required up to a certain point without any suspension of the law in respect to the minimum 25 per cent gold reserve. That allows a certain latitude at the present time.

By Mr. Quelch:

Q. Up to a certain amount?—A. Up to a certain amount.

Q. Not up to 100 per cent?—A. At the present moment it presumably allows latitude of some $400,000,000 of additional note issue, shall we say. If the demands were in excess of that and our gold reserves at that time were no higher than they are now you would come to the necessity of suspending that provision for a minimum reserve of gold.

[Mr. Graham Ford Towers.]

Q. Mr. Dunning virtually denied that.—A. I would answer that by saying I assume Mr. Dunning does not and can not carry in his head at all times the figures in our balance sheet and therefore realize exactly how far at any moment we could go without suspending the gold reserve provision.

By Mr. Landeryou:

Q. Has there ever been a time in Canadian banking history when you could have done so?—A. The history of the Bank of Canada dates back only four years. Speaking of that four years, no.

Q. Has there ever been a time before that when the banks themselves could do it?—A. Prior to the Bank of Canada, when the banks could borrow under the Finance Act, I do not think there was any limitation in respect to the amount of notes which could be issued.

Q. On the gold basis?—A. On the gold basis there was never any provision because, as I recall it, the law said that the provisions in respect to any reserve affecting the dominion government issue did not apply in respect to notes issued under the terms of the Finance Act.

By Mr. McGeer:

Q. Only providing the Finance Act in its relation to the gold requirements was suspended by Order in Council?—A. I do not think that there was any connection between note issue under the Finance Act and the gold reserves.

Q. As a matter of fact, if you are conversant with the Finance Act, and I take it that you are not— —A. Excuse me, Mr. McGeer; I think I am.

Q. You think you are. All right, then, I must not be, because I remember distinctly that the Finance Act provided that it was only by Order in Council that those extraordinary provisions of the Finance Act could be invoked; that normally under the Finance Act the gold standard requirement was a limitation on the total amount of dominion notes that could be issued and after that amount had been reached then the issue had to be backed by 100 per cent of gold reserve. —A. After all, this is a question of fact which no doubt could be determined. Perhaps we might put that aside.

Mr. TUCKER: What Mr. Towers says is correct. It means the dominion government stood ready to back and issue a limited supply of legal tender cash against assets that the bank required, just as they stand behind them to-day.

Mr. TOWERS: Right.

The DEPUTY CHAIRMAN: But this is only of historic interest because the Finance Act has disappeared.

By Mr. McGeer:

Q. You recall the statement referred to by the chairman, and it has been suggested that we had better clear it up now:—

> Mr. LANDERYOU: Could they (the chartered banks) secure the cash (that is, the cash to pay their depositors in full) without the suspension of the gold clause?
>
> Mr. DUNNING: Positively yes.

Do you agree with that?—A. If the amount required to-day was the total amount of the deposits and our gold holdings were what they are to-day, it would be necessary to suspend the provision for a legal minimum gold reserve in order to supply that cash.

Q. These are the facts in connection with that, are they not? Just check my figures. I have taken them from your January Statistical Summary of the Bank of Canada.—A. Yes.

Q. You require to pay bank depositors legal tender cash in full $2,500,000,000.—A. Canadian deposits, yes.

Q. And I take it, Mr. Towers, that deposits abroad are secured not on your legal tender cash but upon your cash reserves of the foreign banks?—A. The banks to protect foreign deposits carry cash abroad which will be legal tender in the particular countries in which they are operating.

Q. I mean, it is not a liability against your Canadian Bank of Canada cash reserves, or is it?—A. No, I would say not. It is a liability of the bank concerned. But the bank is expected to protect that liability by appropriate sources of foreign cash in the particular market concerned. And there is a duty on the part of the Inspector-General of Banks to see that that is done.

Q. Well, in any event, I have eliminated that amount.—A. Right.

Q. Although I believe it might be included in that statement that we have reduced the amount to $2,500,000,000.—A. Yes.

Q. That is the banks' liability to pay legal tender cash to the depositors. The amount held by the banks in legal tender cash in their tills and as claims on the Bank of Canada through their depositors with the Bank of Canada is $327,000,000?—A. I do not see that much.

Q. $271,000,000 and $55,000,000, is it not?

The DEPUTY CHAIRMAN: What page?

Mr. TOWERS: $257,000,000 is the figure I have here.

By Mr. Tucker:

Q. In regard to these foreign obligations, is each one of these Canadian banks not obligated by law to meet any of these obligations in Canadian legal tender?—A. No; they are obligated to meet them in the terms in which they have contracted with their depositors. Therefore, if they are operating in the United States, they have agreed to pay back United States dollars. In London, English sterling, and so forth and so on.

Q. I suggest to you, Mr. Towers, that anyone of these depositors, if anything happened in the United States, could come right to Canada and sue these people right in Canada and force them to pay in Canadian legal tender cash. —A. No, they could not, because the terms of the original contract would have been in United States dollars or sterling.

Q. Yes, but they could sue for the equivalent in Canada and collect in Canadian legal tender cash, and that is one of the weaknesses of our banking system in permitting that to go on.—A. Well, I cannot agree that it is a weakness of the banking system provided the bank's foreign business is properly conducted.

Q. Well, a person could come right to this country and sue and absolutely collect that money in Canadian legal tender cash. So that when you make a distinction between the two, their obligation within Canada really comes down to this: That they owe the whole amount in Canada if the depositor seeks to collect in Canada.—A. I think you would find that if a depositor in a foreign country who had an obligation payable to him in his own foreign currency were ever in a situation where he had to come to Canada and sue, you would then have a situation so extremely serious in respect to that particular bank that he would not collect anything at all.

By Mr. Macdonald:

Q. That does not affect the liability, though?—A. Theoretically, I suppose he may exhaust all his possible recourses, first of all, in his foreign centre; later here. But I really cannot attach much practical importance to that from the point of view you mentioned. Naturally, if a bank assumes an obligation, it has an obligation.

[Mr. Graham Ford Towers.]

By Mr. Tucker:

Q. To be assumed by the head office of the bank?—A. The bank must respond everywhere in the world for the liabilities which it assumes.

By Mr. McGeer:

Q. You say that figure should be reduced. The amount held by the bank, according to your figure, is $257,000,000?—A. Yes.

Q. $257,000,000?—A. Yes, in December.

Q. That leaves a total cash liability of the banks to their depositors of $2,293,000,000?—A. $2,243,000,000.

Q. $2,243,000,000 in excess of the cash which the bank holds?—A. Yes.

Q. Now, the amount of gold reserve held by the Bank of Canada is $196,900,000?—A. The figure I have here for December last is $182,000,000.

Q. $182,000,000?—A. Yes.

Q. But it runs between $182,000,000 and $200,000,000?—A. Since then it has gone up and it is over $200,000,000 now.

Q. Over $200,000,000 now?—A. Yes.

Q. We will take that figure of $200,000,000.—A. Yes.

Q. That gives you the right to issue legal tender cash to the extent of $800,000,000?—A. Yes.

Q. And that $800,000,000 is all the legal tender cash you can issue unless you suspend the operation of the gold reserve clause?—A. Unless the Governor in Council does, yes, or else one may buy more gold.

Q. But we are dealing with the situation as it is to-day.—A. Quite, yes.

Q. That leaves a total of $550,000,000 does it not, that you have in excess of what you have issued to the banks and what you are liable to the banks for? —A. Our present notes and deposit liabilities, or at least those in December, were approximately $410,000,000.

Q. So that you have $390,000,00?—A. Yes.

Q. That you can still issue to take care of $2,243,000,000 of bank deposits? —A. Yes, if there was a demand.

Q. We are dealing with that hypothesis.—A. Yes.

Q. Therefore at the present time there is roughly $1,850,000,000 of deposits in excess of the amount of legal tender cash available at the bank, reserves held by the Bank of Canada, and under the law restricting issue of Bank of Canada notes on a 25 per cent reserve basis?—A. That is true, Mr. McGeer, and the same situation, of course, would pertain in all banking institutions around the world, and frankly, with all due respect, I find it meaningless.

Q. I thing a lot of us are getting into the same boat, that it is meaningless from the point of view of the old tradition that we had, that gold was necessary as a backing for currency and of the theory long advanced that our currency is backed with gold,—

Mr. Tucker: Deposits are in demand.

By Mr. McGeer:

Q. —and that the money which the banks are using is real money.

Mr. Landeryou: Hear, hear.

Mr. Towers: I do not think it has any meaning along these lines at all, Mr. McGeer. You have to assume, in order to follow through with the idea that you are presenting, (*a*) that the people are so frightened that they wish to withdraw their deposits from the banks; and (*b*) that they are not interested in buying government securities; for if the banks, for example, could sell their large holdings of dominion and provincial securities to the public they would redeem their deposits in that form. You have to assume therefore a situation, speaking of the banking system as a whole, that has never arisen in the world, a situation of absolute panic in which depositors do not want assets other

than legal tender itself to put in their mattresses. I believe anyone could take any business and under hypothetical conditions of that variety arrive at the conclusion that all businesses were in a most dangerous situation.

By Mr. Deachman:

Q. In that case you would have to assume that the dominion government was broke also, because if the bank could sell its bonds to the value that they possess they could liquidate those claims?—A. Yes, and you would have to assume that the people of Canada did not want dominion government bonds and would not buy them at any price.

By Mr. Tucker:

Q. Is it not true, no matter how you juggle it, that there is only that much cash there?

By Mr. McGeer:

Q. What we are dealing with is the custom of gold reserves. We are not dealing with the question which Mr. Deachman has addressed his remark to at all; namely the currency issued against asset security, which is gold, and I should like to clear up the actual situation with reference to gold reserves, if I may, and then I will be very glad to—I want to go into the question of asset currency myself as well, or leave it to anybody else—give consideration to another type of reserve. The point that we are dealing with now, if we can only stay with the point, is whether or not this statement made in the house of commons is correct or not.

Mr. TUCKER: Mr. Deachman made a statement that is made continually, and which I take it Mr. Towers did not agree or disagree with. The statement is that given time the banks by realizing on their reserves could, without having the gold reserve clause lifted, somehow meet the demand of depositors. Now, I think Mr. Towers will agree that that is possibly a fallacy?

Mr. TOWERS: Oh, excuse me, I do not. If you examine the bank statement you will see why it is not a fallacy. The banks have assets in the form of dominion and provincial bonds and other securities, and assets in the form of loans. If they could realize on these securities by selling them, and I assume they could do so now as the credit of the dominion and provinces remains good, if they could collect their loans, that is the way in which they could repay their depositors.

By Mr. Tucker:

Q. How will they collect them; they cannot collect them in cash to the extent that is owing to them in order to meet the demands of depositors in cash. That is a fallacy that is put out continually by the banking system; if they were given time to collect on their government securities they could meet the demands of depositors in cash.—A. So they could.

Q. That cash could not possibly come into existence in any way, shape or form. How could they do it?—A. If you assume that all the depositors want cash, cash only—

Q. Yes?—A. And will not take anything else, will not take dominion government bonds or gold, or any other form of asset but only cash, if you make that hypothetical assumption which, I believe, is almost an exploration to the moon—

Mr. LANDERYOU: It happened in England and the United States. There was a run on the banks in the United States and the banks had to close up.

The DEPUTY CHAIRMAN: Order, order. May we allow Mr. Towers to complete his statement, and then another question will be in order.

[Mr. Graham Ford Towers.]

Mr. TOWERS: Let us make that assumption, then. It then becomes impossible for the banks to sell any of their securities or collect any of their loans, and the situation then becomes one where the only way in which they can get that legal tender cash would be by borrowing from us; but you have to assume that no depositor will take anything else, that he sneers at a dominion government bond or other asset that the bank possesses, and wants only the cash.

By Mr. McGeer:

Q. May I just interject there? I think if we are ever going to get any place we ought to complete one subject. Now that is a most interesting feature of banking practice, but it has nothing to do with the point that we are considering at the moment; that is whether or not this statement made in the house of commons—and I want to repeat it now because the whole trend of this discussion has broken. The statement appears on page 2879 of Hansard, and is as follows:—

> Mr. DUNNING: The Canadian banks under the present law would positively be able to secure the cash to meet immediately the demands of their depositors.
>
> Mr. LANDERYOU: They would be able to raise it; I do not question that.
>
> Mr. DUNNING: No, secure it.
>
> Mr. LANDERYOU: How would they secure it? By going to the dominion government and asking them to print the money?
>
> Mr. DUNNING: Oh, no.
>
> Mr. LANDERYOU: Could they secure the cash without a suspension of the gold clause?
>
> Mr. DUNNING: Positively yes.

Now, I am trying to deal with that particular issue of whether or not these bank depositors in Canada could be satisfied in legal tender cash without the suspension of the gold standard, as Mr. Landeryou said was necessary and as the Minister of Finance declared was not.

The DEPUTY CHAIRMAN: I understood that the question had been put to Mr. Towers and that he had answered it; but if any member thinks that the answer was not clear I think Mr. Towers could be asked to clarify his answer on that particular point, and then we will pass to something else.

Mr. McGEER: May I continue the examination under the terms of the act?

Mr. WOODSWORTH: As a matter of procedure, may I say I have been prevented from being present at this committee because I have attended other committees which have met at the same time. I did happen to be on the steering committee to arrange the procedure by which we would conduct this committee. It was considered that in order that there might be clarity we would allow one member to put questions for a time, clear that up, and then others should put their questions, so that there would be no confusion.

Now, I do object to several days being taken by one member of the committee, when a great many other members have just as much knowledge of this matter presumably and when a great many other members are equally anxious to put questions to the witness. While it was the understanding that we would proceed in this way, I think that Mr. McGeer is rather taking advantage of the arrangement provided by the committee simply to try to shut out—it was done this morning—three or four others who have questions to put on the very point at issue, just as the chairman himself suggested in regard to Mr. Towers answering the questions. I am only one member of the

committee but I believe that it is rather taking advantage of this arrangement of the committee for one man to seek to dominate the whole proceedings at this date.

Mr. LANDERYOU: It was more or less understood at the first meeting that Mr. McGeer would be allowed to go ahead with his questions. That was what I understood.

Mr. WOODSWORTH: Within limits.

The DEPUTY CHAIRMAN: A question arose this morning whether Mr. Dunning's statement the other day in the house was correct or incorrect. The question was put to Mr. Towers and Mr. Towers answered it to my mind quite clearly; but if there is any doubt as to the clarity of Mr. Towers answer we should ask Mr. Towers to repeat his answer to this question, and then pass on to something else; because I believe that there is a lot to be said along the lines of Mr. Woodsworth's remarks. When the steering committee met to discuss the procedure to be followed so as to enable the committee to proceed with order and clarity with regard to a most intricate matter, it was proposed we would take a question and a series of questions would then be asked and before leaving that subject other members of the committee might ask a question of the witness on the same subject. I must confess that I thought that we might proceed a little more rapidly than we have been doing so far. I am not criticizing the way the committee has been conducted by any means, but we probably will have very few sittings of this committee and it might be preferable to adopt another course so as to give other members of the committee a chance to develop some points that they have in mind. We might perhaps allow the procedure to go on for some time this morning, but I would suggest on the point that we have laboured this morning that Mr. Towers be asked to repeat his statement as to the accuracy of Mr. Dunning's statement in the house the other day, and then we shall pass onto something else.

Mr. TAYLOR: This has its value, but with all due deference to Mr. McGeer, I feel that it is very much like fighting a battle with one gun. There are a number of minds here approaching this thing from a different angle, and although we may not contribute a great deal to the proceedings it is quite possible that out of the lowly earth some flower may spring.

The DEPUTY CHAIRMAN: In addition to that, I think what we had in mind was that questions should be put to Mr. Towers or to Dr. Clark to elucidate the point, but there should be no controversy of policy, because they will state their policy and if any other policy is to be urged then it will not be out of these witnesses. We can ask them would not this or that or the other thing be better, or is this a fact or is that a fact, but it is useless to enter into a controversy because we shall continue on until Doomsday without being convinced by either side. Therefore I think that the duty of this committee is particularly to ask Mr. Towers or Dr. Clark as many questions on questions of fact as possible, to put on record the facts on which discussion in the house might develop further.

Mr. LANDERYOU: I believe that Mr. McGeer is asking his questions along that line, Mr. Chairman; I believe he is asking questions that other members would ask.

Mr. McGEER: What I have been suggesting, and I discussed it with a number of members of the committee and the steering committee, and I said it the other day, is that I thought the course of procedure of the committee should be developed logically and reasonably. The questions I had in mind were: our kind of money, the sources of supply of that money, the uses to which that money is being put, and the control system in operation. There was never any intention on my part to shut out any members of the committee in seeking further information. That was my suggestion this morning when we happened

to get into the course of the immediate examination. I was at an important point when an interjection came up on something that must be discussed later on. I do think it is important to know whether or not as the Minister of Finance says our banks can meet their liabilities in full to their depositors without the suspension of the gold reserve.

Now, Mr. Chairman, I do not think that there can be any more pointed matter going to the very root of our monetary system than a discussion upon that very point, and if I might refer to the Bank of Canada Act and examine Mr. Towers on it, I think we can clear up that point.

By Mr. McGeer:

Q. It has been clearly established on the record that the total available gold reserves permitting the issue of cash would leave $1,850,000,000 worth of depositors' claims unsatisfied. Now, Mr. Towers, under section 26 of the Bank of Canada Act it is provided "the bank shall always maintain a reserve, as hereinafter provided, as security against its outstanding notes and liabilities.

(2) The reserve required by this section to be maintained shall consist of gold coin and bullion in the unrestricted ownership of the bank equal to an amount not less than 25 per centum of the notes and deposit liabilities aforesaid . . ."

Now the provision for suspending that requirement is in subsection (3) which reads:—

> At the request in writing of the board, the Governor in Council may suspend the operation of this section in so far as it requires the bank to maintain a reserve of gold equal to an amount not less than 25 per centum of its notes and deposit liabilities. Such per cent shall be for such period not exceeding 60 days as may be specified by the Governor in Council, but on the further request in writing of the board it may be extended from time to time for further periods not exceeding 60 days each, provided, however, that no such extension shall continue for a period longer than one year without the sanction of parliament.

So that under that section it is only parliament that can suspend the gold reserve requirement so that the depositors can be paid in full with Bank of Canada cash.—A. Cannot the Governor in Council do it for a certain period?

Q. Sixty days, but not for a longer period than a year.—A. Not for a longer period than a year, after which it requires the approval of parliament.

Q. So that to pay the depositors in full in legal tender cash it would be necessary to secure the sanction of parliament to the suspension of the gold reserve requirement?—A. I thought that was in the power of the Governor in Council.

Q. I mean to say, the Act says "providing that no suspension shall continue for a period longer than one year without the sanction of parliament."—A. If the emergency arose and the board requested action by council I would assume from the act that council could take that action could it not?

Q. Council can do it for 60 days with power to extend it for a succeeding period of 60 days up to one year.—A. Yes.

Q. Then parliament must act.—A. If the emergency was still in force at the end of a year no doubt it would be laid before parliament.

Q. It has to be under the act, and that is what would happen supposing everybody demanded their deposits in cash.—A. Yes.

Q. So that Mr. Dunning's statement is wrong to this extent, that the total cash that could be issued on our existing reserves would leave unsatisfied $1,350,000,000 of deposits on claim in the merchant banks?—A. I think that if the question had been put to Mr. Dunning as clearly as it has been put to me, and if all the surrounding assumptions, all the hypotheses had been put to him

as clearly as they have been to me, that his answer would have been the same as mine, namely that in the circumstances visualized it would be necessary to suspend the gold reserve provision.

Q. By Parliament?—A. First of all by Order in Council, I assume.

The DEPUTY CHAIRMAN: If it extended to a period longer than one year, by parliament. That should be quite clear.

By Mr. McGeer:

Q. Just a minute. There is a certain hypothesis there. This is how the discussion went on in the house of commons:

> Mr. LANDERYOU: I did not say that the banks did not have assets behind their deposits. No one is questioning that. They have over $1,400,000,000 worth of municipal, provincial and federal securities as assets behind their liabilities to their depositors. They have plenty of assets—I am not questioning that; but all they have in actual cash to meet their liabilities does not total more than $300,000,000. The question I ask the Minister of Finance is this: if there was a run on the banks in Canada, as there was in the United States a few years ago, and in England in 1914, would our banks under the present laws have the cash to pay off their depositors?"

Mr. LANDERYOU: That was clear enough.

Mr. McGEER: There is no question about the proposition being made there, a general demand by depositors.

Mr. TOWERS: The answer is, "Yes, they would have the cash."

By Mr. McGeer:

Q. They would have the cash?—A. Yes.

Q. Well, they did not have the cash in the United States.—A. My understanding of that is that towards the close of that period the federal reserve laws were such that all member banks could have got the cash. Of course, there is a very variegated banking system in the United States, and not all banks are member banks. I think perhaps I should stick to what I know best, which is the Canadian banking system; but I would say in the circumstances visualized —and we must remember that hypothesis includes one to the effect that depositors want nothing but cash, no one will buy dominion or provincial bonds. Under that hypothesis I would still say that the banks could get the cash required by borrowing from the central bank; that in case of need the board of the central bank would, I assume, recommend to the Governor in Council that the minimum reserve provision be suspended.

Q. You know, as a matter of fact—

By Mr. Quelch:

Q. Mr. Dunning denied it was necessary to do that?—A. I think if the question had been put as clearly to him as it is to me with all these surrounding assumptions which a person could hardly imagine unless described, I would say Mr. Dunning would have answered as I have.

Mr. MACDONALD: The assumptions we are making are pretty tall ones. We are assuming the banks cannot collect anything on loans and cannot sell government securities.

Mr. DONNELLY: If I am doing business and I borrow $1,000 from the bank on a sight loan, and I go in with $500 to deposit, would they not say to me, yes, we will take your deposit, but you owe us $1,000 on a sight loan and the one would more than balance the other?

[Mr. Graham Ford Towers.]

Mr. TOWERS: The possibility of cancelling in that form is not probably very great because the people who are borrowing $800,000,000 from the banks have, I should imagine, credit balances of not more than $80,000,000 or $100,000-000 because naturally, having borrowed the money they are using it elsewhere.

By Mr. Taylor:

Q. I should like to ask Mr. Towers if this question does not go entirely beyond the laws of human chance?—A. I would say, yes.

Mr. MCGEER: I did not get the statement.

By Mr. Taylor:

Q. These questions go entirely beyond the laws of human chance. Insurance companies have certain claims which they must pay, they are based on the assumption that every person insured with them does not die at once. Now, exactly the same with the banks. The bank is built up on the empiric custom, on the laws of chance, and those laws of chance operate and you cannot develop the hypothesis outside of that law; you cannot imagine 100 per cent of the depositors coming to a bank or to the Bank of Canada and demanding cash; it is not possible.—A. If I may add something there, if the question were put to me as to whether the Bank of Canada could meet its liabilities if a foreign army were in occupation here and had seized our gold and assets, I would have to say no, we could not.

By Mr. McGeer:

Q. That would be force and not natural?—A. I think the other thing you mentioned would also be.

The DEPUTY CHAIRMAN: Mr. Jaques would like to ask a question.

By Mr. Jaques:

Q. Before we leave this subject of depositors, may I ask this: when the banks grant loans to the public— —A. Loans to the public?

Q. Yes; these loans become deposits?—A. Yes.

Q. And these deposits are a double liability, a liability on behalf of the public to the banks and a liability on behalf of the banks to the public?—A. No, I think not, Mr. Jaques.

Q. That is what I understood.—A. A man borrows $1,000 from the bank and the bank credits his account with $1,000. At that particular moment he owes the bank $1,000 and the bank owes him $1,000; so far nothing of particular importance has happened because the thing can be reversed at any moment and neither side would be worse off The man who has borrowed the $1,000 has done so because he wants to use it. He does not pay interest on it simply to have it lying in a bank account. He therefore pays it out for the purpose for which he borrowed it. His deposit then goes down, shall we say, to about $100. He owes the bank $1,000; the bank owes him $100, but the bank then owes other people to whom he has paid out the deposit, the remaining $900.

Q. Yes, I understand that, but I was going on to say that if the banks are called upon or were called upon to pay all their depositors, they would not be able to do so; but that is a hypothetical possibility, as Mr. Taylor has said, but if it became a reality then the state would create the money so that the banks could meet their liabilities?—A. Perhaps I should say there that I assume the state would lend against the assets which the banks have in the form of dominion and provincial securities and good loans, so that the emergency could be met; provided the banks, in turn, could furnish good security.

Q. Quite, but that is perhaps hypothetical. If it became a reality then the state would provide the funds for the banks. Would you say, though, that a run on the banks by the depositors would be a hypothetical situation, and in that case does anybody come to the assistance of the borrowers?—A. You are referring there, of course, to a collection of loans by all banks?

Q. I am referring, Mr. Towers, to a policy of deflation where the banks are calling their loans, forcing the borrowers to pay and creating a shortage of money so that the depositors cannot pay and because of that they lose all their securities. Nobody comes to their assistance.—A. You are referring there obviously not only to the collection of loans by banks, which is justified both in the interest of the borrower and of the banks—I have seen those cases—but to a policy so stupidly followed that it is in the interests neither of the banks nor of the borrowers. That is a question of intelligent management mainly, and one could only say that unintelligent management and a stupid pursuance of the course which you mentioned would be in no one's interest.

Q. Might I observe that that policy has been pursued many times in the past and intelligently so on behalf of the banks and the borrowers have lost their securities, their businesses and everything else.—A. Well, of course, if it is pursued unwisely it is not in the interest either of the bank or of the depositors. You are thinking of the circumstances between 1929 and 1932, I am sure. Of the decrease in loans which took place then, I would say a large proportion was a decrease which was inevitable both in so far as lenders and the banks were concerned. It represented a liquidation of stocks, and so forth. It represented also the liquidation of an unwise speculative position which had been built up in 1927 to 1929 period. One might say perhaps it never should have been built up so largely in the 1927 to 1929 period. One might say in the course of this general liquidation certain individuals were too hard-pressed due to a bank not taking an appropriate or more reasonable stand. Banks, like everything else, are conducted like human beings; and, in the course of what happened during those years, it would be very surprising to find that there were not individual cases of hardship. I would not as a result condemn the whole system, although mind you, if I may, Mr. Chairman, I should like to point out that so far as I know I am not here defending anything; I have not any special brief for the banking system, either for the chartered banks or the Bank of Canada; I am here to answer the questions as best I may and to be utterly frank in the course of doing so.

Mr. LANDERYOU: Mr. McGeer was simply trying to clear up by his questions a lot of misapprehension that exists in the minds of the general public.

By Mr. McGeer:

Q. What I am trying to is to prove the fact that to-day the security of our money, whatever it is, is the power of parliament. That is really what it comes to. Now, if our banks owe their depositors a sum in excess of the cash reserve available and the public are willing to accept the promises of the banks, it is because the public know that in the event of an emergency parliament has the power to create or authorize the issue of a form of legal tender currency independent of gold reserves. Do you agree with that?—A. I would say that the people depend on parliament for that in many directions. They pursue their vocations relying on the peace, order and good government of the country.

Q. I do not want to repeat this point, but I do not like leaving the record in the way it is at the moment. You do know that, in accordance with Mr. Landeryou's question to Mr. Dunning, the gold standard was suspended in Great Britain in 1914?—A. Yes.

Q. And it was suspended for the purpose of permitting banks to create deposits in excess of those which could have been created for general use if the gold standard limitation had remained in effect on the issue of Bank of England

[Mr. Graham Ford Towers.]

notes which are legal tender cash reserve for the Merchants Bank deposits in England, just as Bank of Canada notes are here?—A. Yes. One might say that the gold standard was suspended in the public interest with particular reference to the necessities of the government.

Q. With particular reference to the necessity of having an increased volume of money in the form of bank deposits.—A. That would come into it, and there would also be the question that at that stage the British government would not want to see its gold reserves drained away as a result of a flight of money. It would feel in the circumstances of the war that it would want to retain full control of it and use it as it saw fit.

Q. You are also aware, as Mr. Landeryou suggested to Mr. Dunning, that in a time of peace the United States was compelled not only to suspend the gold standard but to declare a bank holiday.—A. Yes.

Q. And only in that way could the bank deposit system of England, as in a wartime situation, and in the United States during a peace time economic collapse, be carried on?—A. I would not care to suggest whether there was any other policy they could have adopted. It really would not be within my province.

Q. I think that is quite clear; they did not abandon the gold reserve requirements other than as a matter of grim necessity, did they?—A. They would have to answer that.

Q. You are acquainted with the works of Mr. George E. Roberts?—A. One time of the National City Bank?

Q. And one time American expert on gold with the League of Nations Economic Department?—A. I could not say I was very familiar with them, but I believe I read some of them.

Q. He did hold those positions, I think you are aware of that?—A. No, I was not.

Q. In any event, this what he says:—

> I have already said that gold has passed out of use as a circulating medium and venture to say that this inaugurates a fundamental change in the use of gold in monetary systems. Gold is no longer required for any monetary use except as the standard of value and for the settlement of balances.

The last statement may be limited to international balances; you agree with that?—A. Yes, I do, subject to this possible qualification which of course none of us can prove; that there may be a certain psychological value in the holding of gold, thinking of the minds of the people as a whole.

Q. He goes on to say:—

> Take notice of what a change this signifies from our old conception of gold as a reserve against all currencies. In fact, business is not based upon gold in any such sense as that.

A. Quite right.

Q. As a matter of fact, we have come to the time in our civilization when in the main our currency, in so far as internal uses within the boundaries of nations are concerned, is managed independently of gold?—A. It depends on the prudence and intelligence of the controllers—God help them—yes.

Q. I mean, whatever value or benefit or power gold had in the past, the demands for the volume of medium of exchange required now have gone beyond gold reserve possibilities?—A. Yes.

Q. So that as far as we are concerned the purchasing and holding of gold as a reserve against Bank of Canada cash, other than some possible psychological value, is a meaningless activity?—A. Oh, I would say it is a very important one in view of the fact that we have very important foreign interests.

Q. Oh, well, I am not leaving gold in the realm of international affairs.—A. In other words, if we had not contact with any other countries in the world, I agree, so far as a purely internal situation is concerned. Gold would not be necessary other than for whatever psychological value it might have.

Q. Even when we have internal and external activity our gold is valuable only from the international point of view?—A. Yes.

Q. As a matter of fact, we have now elevated our volume of bank deposits so far above any possibility of issuing legal tender cash——A. No.

Q. —or a gold reserve to satisfy them in full that they are really managed almost independent of gold.—A. Yes; almost independent of gold.

Q. I quite agree with Mr. Taylor that chance does come in, but at the same time I think that in accepting that theory we might examine the possibility of making our volume of medium of exchange more stable and more secure so that the danger of periodic collapses and expansions or booms and depressions might be mitigated. With that end in view I should like to ask Mr. Towers something about the volume of bank deposit money that is now available under our existing laws. Again I am taking the figures from your statement, Mr. Towers.

The Deputy Chairman: Which one?

Mr. Towers: January?

By Mr. McGeer:

Q. The Bank of Canada Statistical Report of February, 1939.

The Deputy Chairman: What page?

Mr. McGeer: The figures are on both pages, Mr. Chairman; the Bank of Canada statement and the statement of the chartered banks. They are the first and second statements in the book.

The Deputy Chairman: Right.

By Mr. McGeer:

Q. Your deposits are $2,500,000,000. The minimum cash reserve required according to the Bank Act, section 59, and the Bank of Canada Act, section 26, is 5 per cent or $125,000,000?—A. Yes.

Q. The cash reserve held by the banks, and I am taking the January figure on page 2, I think it is, or page 21?—A. Page 21.

Q. That would be $257,000,000, would it not?—A. For January it would be $269,000,000.

Q. $269,000,000.—A. Yes.

Mr. Macdonald: Where is that?

The Deputy Chairman: The last figure at the bottom of the column.

By Mr. McGeer:

Q. The notes in the tills are $61,000,000 and the deposits with the Bank of Canada are $210,000,000, are they not?—A. Yes. You are taking that from the figures on page 19?

Q. Yes.—A. That is the average of Wednesday's figures; whereas the $269,000,000 that I mentioned comes from the published statement of the chartered banks themselves and is the month-end figure in January. The figures are at different times.

Q. They vary from time to time?—A. Yes.

Q. But the figure of $271,000,000 would be a fair figure, would it not?—A. Yes, or perhaps if one took the figures from page 21 it would be simpler. There it shows the Canadian deposits at the end of the month—$2,501,000,000 and cash as $269,000,000. It does not make any difference, of course.

[Mr. Graham Ford Towers.]

Q. The excess reserves held by the bank would be $271,000,000 less $125,000,000 would it not?—A. Yes.

Q. That is $156,000,000?—A. $146,000,000.

Q. That is right—$146,000,000. And the banks could increase their deposits on those reserves by twenty times, under our law?—A. Yes.

Q. That would be excess reserves available for possible increase of deposits of $2,920,000,000?—A. Yes. Of course, that would not happen because if we saw that the banks were changing their policy in respect to maintaining a 10 per cent reserve, and that that change in policy was leading to an unwise expansion, if we thought it was unwise, we would reduce the amount of their cash so that that expansion could not take place.

Q. And how would you reduce the amount of their cash?—A. By selling government securities, by selling foreign exchange, by selling gold, by selling any of our assets.

Q. But you could not compel the banks to buy any of those things?—A. I think we could get the public to buy them, or, if it were a question of foreign exchange, we would find a ready market for that, or selling gold, we would find a market for that. Yes, we can find a market for enough of our assets to reduce the cash to an appropriate figure, without a doubt.

Q. In any event, whether you can reduce it or not, the fact remains that our banks have sufficient cash reserves at the moment to increase their deposits to $2,920,000,000?—A. The cash reserves are there because we assume and know that the banks are working to a ten per cent ratio. The moment they change their minds the cash will change too.

Q. A country which has excess reserves to permit a 100 per cent increase in its bank deposits should be in a fairly healthy financial condition, should it not?—A. I do not think that the amount of reserves matters or has the significance that you mention in a case like that, because the amount of the reserves is determined by the central bank. They are not accidental. It is not necessarily an indication of wealth that there should be excess reserves. In fact, the excess reserves—on the basis of practice, which is all that counts—were on the date which you mentioned some $21,000,000. Since then they are slightly lower. Presumably the Bank of Canada thought it was wise that there should be some moderate excess over the figure of 10 per cent. But I am absolutely certain, Mr. McGeer, and I have tried to answer as frankly as possible to clarify things, that there is no practical point in talking in terms of a 5 per cent reserve, because in practice 10 per cent has been the reserve for quite a long time. Should the banks change their ideas in that respect we will change our idea in regard to the volume of cash which they have.

Q. Of course, Mr. Towers, I think we are both here in the hope that we can meet what I think is a desperate situation in the dominion of Canada. As a public man I can tell you from experience with municipal, provincial and national government that for some reason all of our public administrative authorities are desperately impoverished to-day.—A. I think that is a slander on Canada, Mr. McGeer.

Mr. LANDERYOU: It is true.

Mr. McGEER: I asked my friends in Vancouver to modify their claims when I was mayor of Vancouver because the city taxation had already gone beyond the line of diminishing returns.

The DEPUTY CHAIRMAN: Mr. McGeer, may I draw the attention of the committee to the point that we are putting questions of fact to Mr. Towers which we want to have elucidated. What you have just stated is a speech, and I think we should proceed by asking questions and elucidating the facts without going into a controversy with Mr. Towers.

Mr. McGeer: I accept that, Mr. Chairman, but I just thought that if I made a statement on the point of view I have and what I am trying to develop, we could work together with Mr. Towers in this committee to find some way of improving our public finance. Now, may I put this question?

The Deputy Chairman: All right; in the form of a question.

By Mr. McGeer:

Q. In the event of our being called upon to defend ourselves in a world war, surely that $2,920,000,000 of available bank deposits on existing reserves would be available to finance defence?—A. I should regret that thought. After all, we will recall that what is wanted in the way of defence are men and materials. The last war, for example, was paid for in respect to men and materials every day it lasted. In other words, the citizens of the country as a whole being the producers had the wherewithal to pay the war costs each day.

Q. We still owe for it.—A. May I come to that? It was the case that although the citizens of the country as a whole could pay for that war, and this is no joke, this is a fact—

Q. Nobody is joking about it.—A. They had the wherewithal to pay for it, but it was not possible—and I do not say this as a criticism—apparently it was not possible to get from the people in taxation sufficient to cover the costs of the war, so that a large amount was borrowed from our own citizens. It was therefore the case that although from a men and materials point of view the war was paid for by the country as a whole, it was the case that the country owed some of these citizens for the materials which the country had borrowed from those citizens during the course of the war.

Q. Yes, but did not the bank deposits rise from $1,100,000,000 to $2,400,-000,000 as a result?—A. They did, and that was part of that shift as between certain sets of citizens and certain other sets of citizens.

Q. It was necessary to finance the war to increase our bank deposits to at least that extent?—A. If one assumes that it had been found possible by taxation to obtain the necessary funds and the funds were only representing the labour and materials which were being provided, theoretically, there would have been no impossibility in finding all that was required in the form of taxation without increasing the national debt or bank deposits.

Q. But we did increase bank deposits and we did increase the national debt and we did impose all the taxation that the people could stand.—A. I am not aware whether we imposed all the taxation people could stand or not. I agree that that system was followed.

Q. It may be that we differ upon those points and that you say we could go to more taxation to finance war or finance progress.—A. I said theoretically it was possible. There may be a time when, in the course of the operations of a democratic government, it is impossible to seek out the individuals for taxation purposes or to impose the control which would really result in producing the volume of taxation I mentioned.

By Mr. Quelch:

Q. Would you not reach the law of diminishing returns if you tried to increase taxation?—A. You might very well do that, unless your taxation just hit the right spot; unless of course, you have absolute control as they have in the case of totalitarian countries. You cannot always hit the right spot. You then have to resort to borrowing or inflationary methods to get from people indirectly what you feel you cannot get directly.

By Mr. Jaques:

Q. Who do you borrow from; who does the government borrow from?—A. From the Canadian people.

[Mr. Graham Ford Towers.]

By Mr. Quelch:

Q. The banks lend the money to buy.

By Mr. Jaques:

Q. I was offered some victory bonds by the bank and I said I did not have the money; the bank said, "well, that is all right, we will lend you the money." In other words they borrowed the bank's money which they created out of nothing and got 8 per cent for it.—A. A portion of the financing was done by an increase of the security holdings of the banks with a consequent increase in the banks' liabilities to their depositors; but, of course, I think it is too often assumed that all government financing is done through selling securities to the banks. In actual fact, however, a very moderate proportion of government debt in Canada is held by the banks. The balance is held by insurance institutions and the public. I think the banks hold approximately 20 per cent of the dominion-provincial debt, between 20 and 25 per cent.

By Mr. McGeer:

Q. It has been increasing from practically zero in 1914 to that amount to-day and it now comes to about $1,400,000,000?—A. Yes, as a result of the easy money policy we followed.

Q. It does not matter what policy we followed, let us have the facts.—A. That is a fact.

Q. I come back again to the fact that to-day we have under our monetary system as provided for by Canada, the means of increasing our bank deposits in Canada from $2,500,000,000 to $5,400,000,000?—A. Oh, for more than that, Mr. McGeer.

Q. I meant to say on the excess reserves of cash that the banks have.—A. Yes, we can add to the excess reserves at any time; the sky is the limit.

Q. In any event, we can double, under our laws, on the reserve of cash the banks now hold, our bank deposits which we use as 95 per cent of our medium of exchange money; that is correct?—A. Providing the banks are willing to do it, yes.

Q. Parliament has given them the power?—A. Yes.

Q. And you, as the Bank of Canada, have given them the cash reserves?—A. Our act reads that in case of need.

Q. But you have given them the right, I assume, when they operate on that 10 per cent basis?—A. Under our present situation we at least have for financing purposes a sum of money, a sum of possible bank deposit money, equal to $2,920,000,000, yes, and we could make it $10,000,000,000.

Q. And would, if it were necessary to defend the nation?—A. It would not be necessary to defend the nation; it might only be necessary to cause a shift of assets. It would only be necessary as an internal matter in dealing with our own citizens.

Q. To finance the defence of our nation against foreign aggression?—A. Assuming we decided to take it from our citizens in that form rather than in some other.

Q. Parliament has created that possibility in its laws?—A. Yes.

Q. Now, in addition to the reserves that the banks have in excess of their present requirements, you can issue any amount of Bank of Canada cash in excess of what is in demand now?—A. Yes.

Q. How much?—A. Oh, on the basis of the 25 per cent, I think we said about $390,000,000.

Q. And that could be used as reserves for our merchant banks increase of deposits?—A. Yes.

Q. On the basis of 20 to 1?—A. Legally, yes.

Q. I mean legally.—A. We are not speaking of practice, but just legally.

Q. I am dealing with what parliament has provided.—A. Yes.

Q. So that it would be 7——A. $7,800,000,000.

Q. And the other amount of available deposits and bank reserves?—A. I think you said $2,900,000,000, didn't you?

Q. Yes.—A. Yes. We get to $10,700,000,000 now.

Q. In addition to that we have $1,300,000,000 in the banks saving accounts which is available for the purpose of purchasing——A. Available in the hands of the banks' 4,000,000 depositors.

Q. To purchase bonds, if they wish. For instance, if I have $1,000 in the savings bank.——A. I think, perhaps, if I may say so, the sequence would be better if we said a possible increase of the $10,700,000,000, I think you said, that is superimposed on existing deposits of $2,500,000,000, of which the $1,600,-000,000 that you mentioned form a part; so that at the close of this period of activity the total deposits of the Canadian people would be $13,200,000,000.

Q. Now, that is the amount of deposits that are possible under the laws as they stand in the Dominion of Canada to-day?—A. Yes.

Q. Now, do you recall the economic conference of 1933?—A. Yes.

Q. And are you conversant with the monetary committee's activity in the British Empire conference in Ottawa in 1932?—A. From reports, yes.

Q. Will you agree with me that in 1932 it was unanimously agreed by the representatives of the monetary committees and approved unanimously by representatives of the overseas dominions that in monetary policy the aim of governments should be to create low rates of interest with abundance of money?—A. Yes.

Q. That was the language that was used?—A. Yes.

Q. At the world economic conference in 1933 the British representatives or the representatives of the Commonwealth of Nations of the British Empire got together and confirmed that aim, did they not?—A. Yes.

Q. And as a result of that our Canadian parliament changed its banking laws, established a central bank and reduced the cash reserves for deposit liabilities of merchant banks to 5 percent?—A. I do not know whether it was the result of the conference, of course —

Q. But they did that?—A. There had never been a law in respect to minimum cash reserves of the chartered banks before that time.

By Hon. Mr. Stevens:

Q. In Great Britain?—A. There is not now in Great Britain, and there never had been in Canada; that was a new thing.

By Mr. McGeer:

Q. I think you will agree——A. Prior to that date; there was, of course, the possibility for a bank to operate on cash reserves of 1 per cent.

Q. The English practice was then 10 per cent and had been incorporated in the federal reserve system with some variations?—A. Yes.

Q. But generally speaking the cash reserve requirement in the United States under the federal reserve system of federal reserve banks was 10 per cent?——A. Yes.

Q. I think it is the first time that that ever appeared in a banking law?—A. In the federal reserve system in the States?

Q. Yes.—A. I rather believe it was.

Q. I never heard of it being in any other law, but knowing that our parliament reduced the reserve requirement to 5 per cent?—A. There had never been any here; so they set up the reserve requirement of 5 per cent.

Q. Knowing that they were 10 per cent in the United States and in banking practice in England, our parliament fixed, if we may say for the first time, a reserve of 5 per cent?—A. Yes. Speaking of these reserves in the United States

[Mr. Graham Ford Towers.]

as being 10 per cent, of course, they vary. In large cities they are such and such for demand deposits and so much for time. In medium size cities they are something else, and in country points they are still lower; so that Canada, having to legislate for banks that were scattered across the entire country would have the bear that in mind, that in the United States in the smaller places the reserve was much lower than the figures you have mentioned.

Q. Will you agree with me on this, that of the great changes that have taken place in monetary practice during the last 20 years, one of them has been to provide a banking system that can supply an abundance of money—that is the language, not mine?—A. Yes.

Q. That is the language that was used in the report of the British Empire conference. Now, we have certainly established a system which provides Canada with an abundance of bank deposit money?—A. Yes.

Q. That is true—

Mr. TUCKER: Potentially.

Mr. MCGEER: Well—

Mr. TUCKER: It does not supply it.

By Mr. McGeer:

Q. We have the means of supplying it. We have established the means. I may have left out the word "means". May I correct that and say, as a result of parliament's action we in Canada have established the means of providing an abundance of money?—A. Yes.

Q. In other words, we have provided the means of supplying considerably more than $10,000,000,000 of bank deposit money?—A. Yes.

Q. And we are only using $2,900,000,000, or in round figures, less than $3,000,000,000?—A. $2,500,000,000.

Q. $2,500,000,000?—A. Yes.

Q. Now, as a matter of fact, the amount that we can use is over $12,500,000,000 under our existing monetary and banking laws?—A. That can be created.

Q. That can be created?—A. Yes.

Q. Now, Mr. Towers, would you tell me why, when parliament has created that abundance of money—

Mr. QUELCH: The means.

By Mr. McGeer:

Q. Created the means of supplying such an abundance of money, why it is that our national government, our provincial governments and our municipal governments are unable to finance the progress of the Dominion of Canada without resorting to burdensome and confiscatory taxation?—A. Parliament, so far as I know, has never said that it considered money as wealth, nor has it assumed that by issuing another $10,000,000 of paper money the best interests of the country would be served. Should parliament decide otherwise, parliament will do so, no doubt.

Q. Well, now, you are conversant with the preamble of this act which created the institution of which you are the governor, are you not?—A. Yes.

Q. And you are also conversant with the language of the MacMillan committee report?—A. Yes.

Q. Upon which the Bank of Canada was created, of which you are the governor?—A. Yes.

Q. Was it not one of the duties of the Bank of Canada to advise the government on these very matters? Let me read it to you.—A. Yes, the MacMillan committee visualizes that would take place.

Q. I am reading from page 62, section 202 of the MacMillan committee report, from the top of the page down, and it reads as follows:

> If we survey the cardinal monetary problems which face the Canadian people in common with all other peoples to-day, we are immediately confronted with a multitude of difficult and intricate questions. To what extent and through what organizations should the volume of credit and of currency be regulated? Upon what body should lie the primary responsibility for maintaining the external stability of the country's currency? To what institution may the government of the day most suitably turn for informed and impartial advice on matters of financial policy?
>
> 203. In the great, and increasing, majority of countries the answer to these questions has been found in the existence or the creation of a central bank.—A. Quite.

Q. So surely the volume of money circulating in the country either as national investments or bank loans is a matter upon which the government will take its advice from you and your associates?—A. Oh, not necessarily. They will, I hope, ask for advice; they do not necessarily need to take it.

Q. But, in any event, according to the MacMillan committee report one of the duties of the officials of the central bank is to advise the government upon the volume of credit and currency to be issued and circulated?—A. Yes.

Q. Now, when we come to the preamble of the act it declares:—

> Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows . . .

You are aware that this preamble, and I think it is warranted by the powers vested in the Bank of Canada by the act, makes you as governor, your colleagues and directors in the bank, responsible for whatever influences, beneficially or otherwise, may be imposed on the internal and economic life of this nation. You approve that?—A. So far as may be possible within the scope of monetary action.

Q. Agreed. We are not dealing with tariffs or a thousand and one non-monetary factors.—A. No.

Q. We are dealing only with the creation, issue and circulation of money.—A. Yes.

Q. Now, that is all.—A. You, of course, would be one of the first to say that this was true: should the actions of the people who are responsible not meet with approval of the government, I have no doubt the management would be changed.

Q. You want us to discuss that?—A. I would have no objection.

Q. I think we had better confine ourselves to this. I do not want to be anything but helpful to you, because I believe, Mr. Towers—you may not think so—you are just as conscientious in fulfilling the great duties and responsibilities that you have to this nation as I am in trying to do the humble work of just a common back-bencher member of parliament.—A. Thank you very much for that, but I did not make my remark—perhaps it might lead to misunderstanding—as a provocative remark. It really is a very serious one, because that is the proper remedy, undoubtedly.

[Mr. Graham Ford Towers.]

Q. And you noticed the great Mr. Schacht was taken out of the bank the other day in Berlin?—A. Yes.

Q. And there is some talk of Mr. Norman being removed from the Bank of England.—A. Oh, well, of course it is somewhat—

Q. I do not think we need to go into that.—A. Of course, it is somewhat different in different countries. If I were in Germany I should probably be trembling in my shoes right now.

Q. I do not think there is any question that if parliament, the country, and the government of the day, were not satisfied with the administration of the bank that they could change it.

Mr. WOODSWORTH: Why not let Mr. Towers say so?

The DEPUTY CHAIRMAN: The powers of the governor of the bank are purely advisory.

Mr. MCGEER: That is all I am saying.

Mr. QUELCH: I wonder if I may interject here, because I raised this question in the house. I read the statement of the deputy governor of the Bank of Canada in which he said that "no respectable central bank would accept from its government a policy with which it differed fundamentally." Mr. Dunning explained that what really was meant was this: that if the policy of the government was such that the bank disagreed with it, then the governor of the Bank of Canada would resign.

The DEPUTY CHAIRMAN: Surely.

Mr. QUELCH: Surely that statement must show the governor of the Bank of Canada agrees entirely with the policy. It is not a question of merely giving advice. The question is this: the governor to-day must agree with the policy that is put into operation, otherwise, as the Minister of Finance says, he would resign.

Mr. TOWERS: Speaking now of the monetary policy, which has nothing to do with the government policy, I should say that in the course of the discussion we have gone into two fields: one is the function of advice in respect to government financing; the other is the function of operating the Bank of Canada in accordance with the responsibilities imposed by the act. The operation function is the direct responsibility; the advisory function in respect to government financing and so forth, shall we say, is an advisory function. That is the only way we can describe it. Speaking on the speech that you mentioned, that was made in Ottawa a few days after I had made one to the Junior Board of Trade in Montreal, and in that Junior Board of Trade speech I said this—if I may have the permission of the committee, Mr. Chairman, to read it:—

> Instead of having the central bank functions performed by a department of government, the government has preferred to entrust these functions to specialized institutions. The laws under which they operate vary. But the banks all have one thing in common: their monetary policy must conform to the policy of their respective governments. No other conception of the situation is possible in this day and age, nor would any other state of affairs be desirable in view of the vital effects which monetary policy can have on the affairs of a country.
>
> Strangely enough, the supreme control of government in matters of monetary policy does not lessen by one iota the responsibility of central bank executives and directors. If things go wrong, in a monetary sense, while they are in charge of the affairs of a central bank, they are in no position to pass the responsibility on to the government. For it must

> be assumed that the policies which have been followed are in substance policies which they endorsed and recommended. If they did not agree, they should have said so. And in those circumstances they would, no doubt, have been replaced by others who did not share their objections.

It was Mr. Osborne's intention in the speech which he made a few days later to say the same thing; if his wording was such as would lead to a misunderstanding, and I think that it was, it was an unintentional misunderstanding.

By Mr. Quelch:

Q. The Bank of Canada to-day endorses the policy that is in operation at the present time?—A. As policy by the Bank of Canada, yes.

The DEPUTY CHAIRMAN: Now, gentlemen, it is 1 o'clock; shall we adjourn?

The committee adjourned at 1.05 o'clock to meet again at the call of the chair.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 6

FRIDAY, APRIL 21, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

ORDERS OF REFERENCE

FRIDAY, APRIL 21, 1939.

Ordered,—That the said Committee be given leave to print 1,000 copies in English of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee be given leave to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

77047—1½

REPORTS TO THE HOUSE

SECOND REPORT

(Private Bills reported)

THIRD REPORT

FRIDAY, April 21, 1939.

The Standing Committee on Banking and Commerce begs leave to present the following as a

THIRD REPORT

By Order of the House dated March 8, your Committee was empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence.

Your Committee recommends that the said order be enlarged to permit of the printing of 1,000 copies in English, and that Standing Order 64 be suspended in relation thereto.

Your Committee also recommends that it be given leave to sit while the House is sitting.

All of which is respectfully submitted.

W. H. MOORE,
Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, April 21, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock, a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Bercovitch, Clark (*York-Sunbury*), Cleaver, Coldwell, Donnelly, Dubuc, Fontaine, Howard, Jaques, Kinley, Landeryou, Leduc, Mayhew, Moore, Ross (*Middlesex East*), Ross (*St. Paul's*), Tucker, Woodsworth, Taylor (*Nanaimo*).

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

After devoting some time to the consideration of private bills, the Committee resumed consideration of the Report of the Bank of Canada, Mr. Towers being further questioned.

On motion of Mr. Bercovitch,

Resolved,—That the Chairman report to the House recommending that the Order of the House dated March 8th, to print 500 copies in English and 200 copies in French of the minutes of proceedings and evidence be enlarged to permit of the printing of 1,000 copies in English, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Cleaver,

Resolved,—That the Chairman report to the House recommending that the Committee have leave to sit while the House is sitting.

Mr. Cleaver, referring to the evidence of April 5th, stated that the words "No; but has it done any good?" appearing on the seventh line of page 115 had not been used by him, and asked that the record be corrected accordingly.

At 1 o'clock the Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277.

April 21, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, before continuing with the investigation into the Bank of Canada we shall take up three short bills that have been sent to us by the Senate.

In attendance: Mr. GRAHAM FORD TOWERS, Governor of the Bank of Canada.

The CHAIRMAN: Gentlemen, before proceeding with Mr. Towers, may I say that Mr. McGeer asked me to place certain questions before Mr. Towers for answer. I think I shall, in the circumstances, and in the absence of Mr. McGeer, give the questions to Mr. Towers and ask him to present his answers at the next hearing. Mr. McGeer tells me he will be present at the next hearing and hopes to finish his questions. Mr. Tucker has the floor.

Mr. TUCKER: I shall indicate in a sort of way the basis upon which I wish to question Mr. Towers this morning, and perhaps I could not do better than read from the minority report of the Irish Commission of Inquiry into Banking, Currency and Credit, 1938, at page 583, where they lay down this:—

> Stimulation of money expenditure on commodities in whose production there is no unemployment (of men or capital) will, of course, unless control is exercised, drive up the price of the existing output, for the simple reason that an increased output cannot be produced. Whereas the present position that we wish to rectify is one in which men and resources are left idle, so that an increased money demand for commodities will lead to increased output and employment rather than to a rise in prices. Hence a general increase in money expenditure will stimulate the production of a greater supply of goods, and prices will rise dangerously only when unemployment ceases. But if the happy day comes when unemployment—apart from inevitable transient fluctuations—ceases, nobody in his senses would advocate the indefinite issue of free developmental credit instead of taxation. The repayment of such credit, i.e., the redemption of the liens or bonds held against it, would be made when and as funds become available from the proceeds of the works undertaken. In view of the general attitude to financial matters, the more likely danger is that the rate of repayment may be excessive, i.e., deflationary in the sense of again causing unemployment.

Therefore, I wish to ask Mr. Towers this:—

By Mr. Tucker:

Q. If you cause more credit to be provided for development by a rise in general price level because of the increased demand for consumption goods, would not that have a curative effect on the present situation in Canada, bearing in mind that the basis on which I ask the question is the statement, which I think is correct, and which I have asked Mr. Towers if he does not think is correct?—A. I think that the idea underlying that statement can be usefully considered from two points of view; one would be in relation to private capital

spending, private spending for capital development purposes. If the purposes for which the money is used are productive ones, in other words, if the enterprises are successful and if the volume of spending which is taking place at any time is not straining the resources of the community in respect to men and materials—in other words, if one is not at a stage of boom—then the results are naturally of a very satisfactory character. The fact that capital spending is not going on in Canada in anything like the volume of the '20's, is one of the reasons why we find unemployment here at the present time.

So far, I have referred to private spending on capital development. The other possibility is public spending of a similar character; spending which is based on borrowing, or perhaps Mr. Tucker would say on some other form of financing, but which can conveniently be referred to as deficit spending.

The pros and cons of that, of course, have been very widely discussed around the world in the course of the last eight or nine years. It is not a subject which I think can be dealt with in any brief answer. It so happens that for my own purposes I made up a memorandum on this subject, and I have it here. Would it be the wish of the committee that I should read that or place it on the record?

Q. If you place it on the record it will be all right with me. I do not want to take up too much time.

Mr. KINLEY: I should like to hear it.

Mr. BERCOVITCH: Let us have it read.

Mr. TOWERS: It would take about nine minutes, I think, or something like that. The statement is as follows:

It is only in comparatively recent times that deliberate unbalancing of budgets has been widely discussed, or, indeed, that fiscal policy has been generally regarded as having anything but a passive role to play in connection with variations in economic activitiy.

Formerly, the operation of dynamic factors such as rapidly growing population, expanding geographical frontiers, the development of new products which promised to fill obvious needs, and rising international trade, made it reasonable to assume a strong underlying demand for production and installation of durable goods. It was, of course, clear that maladjustments between costs and prices could put an effective brake upon the process of expansion; but, it was believed, costs and prices were sufficiently flexible and the basic forces of growth were sufficiently strong to ensure that the check to progress would be only temporary. Under such conditions there seemed to be no reason why fiscal policy should do anything to obstruct the course of the relatively short-lived deflationary process by means of which the necessary adjustments of costs to prices took place.

The depth and persistence of the depression which began at the end of 1929 led to the development of a theory which challenges this view of the responsibility of the state in regard to economic fluctuations. The theory runs broadly as follows:—

(*a*) The strength of dynamic factors has suffered a secular decline.

(*b*) The consequent fall in the average rate of economic expansion has revealed the need for adjustments so great as to amount to structural changes.

(*c*) These are so formidable, the underlying factors promoting economic recovery or expansion are so weak, and certain rigidities are so great, that the usual deflationary process, if it is not checked by government action, is likely to proceed so far that it will strain the fabric of the present form of society.

[Mr. Graham Ford Towers.]

(*d*) In order to give idle men the opportunity of producing goods or services which they or others would be willing to buy if income were increased, the government is justified in borrowing either idle money, or newly created money, and using it to make good the decline in spending which occurs when existing money goes into idleness.

I should point out, that of course I am just reciting the lines of the argument as made by various people. I continue with the statement:—

It would be better still if idle money could be reached through taxation; but the difficulty of devising taxes which would affect only money which is not in use, and the harmful effect of any other type of taxation during depression, make it necessary, in the main, to resort to borrowing.

(*e*) The elimination of all but frictional or seasonal unemployment should be the basis upon which policy with regard to the size of expenditures and deficits is determined. At the point where deficits begin to have a purely inflationary influence, presumably increased national income will make possible tax revenues sufficient to eliminate the necessity for borrowing.

Those who reject the case for deficits disagree with the fundamental assumption, which I noted under (*a*). In (*a*) I mentioned that "the strength of dynamic factors has suffered a secular decline." The statement continues: They refuse to admit that the so-called dynamic factors are wholly or even chiefly independent variables, in the sense that they are unaffected by the actions of government. They believe these factors would regain much of their former influence, though perhaps with a somewhat different weighting, if only business distrust of governmental policies could be removed. Apart from the possibility of government projects competing directly or indirectly with private business, they feel that continuance of government spending will induce lethargy and dependence upon the part of business. More important, they think that mounting government debt gives rise to such fears of greatly increased taxation, or, alternatively, inflation, that private initiative is stifled by the resultant feeling of uncertainty with regard to the future.

One's view as to whether or not there has been a permanent weakening of the dynamic factors underlying the existing type of economic organization must, it seems to me, be largely a matter of faith. It must depend, for example, upon one's view as to the future of international relationships. Having in mind the economic expansion which has taken place during the past century, I find it hard to believe that a fundamental change in trend can have occurred as suddenly as the extreme supporters of deficits seem to assume. However, one does not have to subscribe wholeheartedly to their assumption to agree that their point of view is worth very careful consideration.

In any case, the weight of events since 1930 has been such as to force the governments of most countries to take some degree of action along the lines of deficit spending, regardless of the theories of fiscal policy which they happened to hold. The important point to consider at this stage is whether or not it should be continued in Canada, and if so, in what degree.

My first comment would be that most advocates of compensatory deficit spending have developed their theory with tacit reference to countries which, to a far greater extent than Canada, produce for internal consumption.

By Mr. Woodsworth:

Q. May I ask if that applies to the United States, the recent experience of the United States?—A. This whole theory, of course, is part and parcel of the United States developments. My statement continues:—

Canadian thinking on this problem is inevitably influenced by developments in theory and practice which are taking place in the United States. In that country only about one-twentieth of the national income consists of

receipts from goods and services sold abroad. In Canada the proportion is about one-third. In the United States the problem of achieving full employment and production is mainly one of offsetting or compensating for a reduction in the private demand for durable goods. No one would attempt to deny the existence of a comparable problem in Canada; just because our growth through the later twenties was so rapid the drop in private demand for durable goods has been all the more severe. But in Canada there is superimposed upon this a problem which is perhaps more important and certainly more difficult, viz., what to do about a reduction in the demand for goods and services which we sell abroad.

Deficit spending in Canada can have little direct influence upon the course of foreign demand for our products. It can do little to increase domestic consumption of things which we normally export. Again, because of the specialized character of the production for which Canada is suited and equipped, it is unusually difficult to meet a decline in foreign demand by creating domestic demand for new things which this country can produce at a reasonable cost. And the necessary shifts of man-power and equipment might be definitely wasteful if the fall in export demand turned out to have been only of short duration.

Agriculture presents a particularly intractable problem in this regard, for farmers have very low industrial mobility. When demand for their exports falls off, the process of putting them to the production of goods or services which will make up for part of the fall in real national income is, at best, a slow and expensive one. Unless the fall in external demand is judged to be of a permanent character, the most that can reasonably be expected is that the farmer be made as nearly as possible self-sufficient during the period of his disability. But this does little to restore his buying power or swell national income.

There are, therefore, greater limitations upon what compensatory deficit spending can do to offset fluctuations in the Canadian economy than there would be in the case of a more diversified and self-sustaining country. There are also greater dangers involved, as I shall now indicate.

An export economy is in the position of having very little influence over the level at which many of its most important prices are set. It should, therefore, do all it reasonably can to keep its cost flexible and to avoid introducing elements of rigidity through borrowings on fixed terms. Otherwise its competitive position in foreign markets may be adversely affected.

I have already indicated why I think compensatory spending is likely to have less influence upon the course of real national income in this country than it would in most others. When large government expenditures are being made and debts are mounting rapidly, there will presumably be relatively less to show for them in the way of an immediate expansion of activity, and the possibility of harmful reactions upon private confidence and spending will be relatively greater.

The apprehension which large government deficits may arouse in the minds of business men and investors, even if it happens to be initially ill-founded, is none the less real. If it is sufficiently strong it tends to bring about its own realization, and is accordingly a factor which warrants most careful consideration when deciding upon fiscal policy.

Another of the main arguments advanced by opponents of a compensatory deficit policy is that it may lead to inflation. In the case of a largely self-contained economy general inflation is unlikely to occur so long as appreciable reserves of productive capacity remain in idleness. In the case of Canada, however, one must also take account of the fact that, under present conditions, there are fairly definite limitations upon the range over which domestic production can compete with imports on a cost basis. At least part of the active spending

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power created by government deficits is likely to increase imports rather than give work to unemployed Canadian men or machines. If the increase in imports is not offset by increased exports (or by borrowing abroad) the external value of the Canadian dollar will tend to fall and Canadian prices will tend to rise. In other words the mere existence in Canada of large amounts of unused capacity does not in itself preclude an inflationary rise in prices.

Whatever the immediate and intended effects of deficit spending may be, vis-a-vis the price level, if the deficits are financed largely by banks the government does to some extent surrender its power to control future developments in the banking system. If bank deposits are greatly increased by purchases of government securities they cannot be readily contracted when, at the start of an inflationary movement, their velocity of turnover begins to rise.

I have now indicated the main factors which I think should be considered in any assessment of the extent to which deficit spending should be continued in this country. Some of these are shifting so rapidly that only a provisional appraisal can be attempted. However, it seems to me that if rising national income, in terms of goods and services as well as money, is to enable us to avoid both horns of the dilemma of crippling taxation or inflation, then all reasonable precautions should be taken to prevent discouragement of private initiative and expenditure. The onus should be on the advocates of any government expenditure, in the ordinary as well as in the special or capital categories, to demonstrate that it definitely will add to the strength and balance of our economy. Needless to say, deficits incurred merely for the purpose of increasing spending power should be avoided at all costs, particularly those resulting from needless expenditures which give rise to additional waste and rigidity by adding to operating expenses as well as to interest charges. How far borrowing for government expenditures which definitely improve the efficiency of the country as a whole, and do not have a harmful effect upon private spending, can be justified at any time, depends, of course, upon how far we are from full employment, upon what considerations arise in connection with the external value of our currency, and, incidentally, upon what fiscal policies are being pursued elsewhere.

Q. As a matter of fact, you have covered something that is very interesting and something I had hoped we would get into; but what I had in mind was more to compare the suggestion that was foreshadowed by the Imperial Economic Conference and the World Economic Conference, namely, that you could go a long way towards restoring employment by raising the general level of prices within each country. Your suggestion to the effect that that would stimulate imports, I suggest, is not correct; because if you, by monetary action, cause a rise in the general level of prices, there is a tendency for your money to get at a premium with some foreign money, and in that way your imports will naturally be discouraged.—A. Get at a discount with foreign money.

Q. Yes, at a discount; and so that would have a tendency not to encourage imports but to discourage them?—A. I referred, of course, in that memorandum to the possibility that action such as you mention would lead to depreciation of the dollar and, consequently, to an increase in the internal level of prices.

Q. Yes?—A. Not necessarily saying whether that was good or bad, but just that it was one of the factors in the situation.

Q. And that would tend to discourage imports?—A. If, as and when the depreciation of the dollar resulted in higher costs here, as it does after a certain lag, then the temporary advantage vis-a-vis the foreign exporter disappears.

Q. At that point I wish to ask a question. We will take it as we go along. If you increase productive capacity due to the lack of purchasing power on the part of your people in general, your actual costs tend to rise, not fall. That has been the main contention of the farm implement manufacturers. They say that, on account of falling demand, their burden rises and so their costs rise. That is exactly the opposite of what you say. Is there not that other feature in Canada

to-day, that if you stimulate production or stimulate consumption demand for goods—farm implements, household equipment, necessities for building equipment—when there is actually increased factory capacity and unemployment raising the unit cost to-day, you increase the amount of production in those fields and decrease the unit cost? Then if your economy is functioning properly, you lower prices instead of raising them. Is that not correct?—A. I think, under the circumstances you mention, that is correct, yes.

Q. Is that not the case in Canada to-day?—A. But the question is how you arrive at those results.

Q. That is the point. That is the thing which I am very anxious for you to explain. The World Economic Conference recommended that by monetary action we should try to return, as I understand it, to the price level of 1926. We have only got back to, I suppose, around four-fifths of that general price level; that is, the index probably is around eighty, roughly speaking. I understood you thought the possibilities of monetary action were almost exhausted. For the life of me I cannot see how you can say that, with the price level down to four-fifths of what it was in 1926, increasing the element of rigidity that you have mentioned; when there are idle factories, idle people and when there is no effective demand and when there is a tendency to raise prices all the time—that is, raise prices in those particular goods—if you were going to raise them—by monetary action as recommended at the World Economic Conference?—A. Of course, monetary action by the banking authorities alone will not necessarily raise prices. That money has to be used. If it is relatively idle, it has no effect on markets or on prices.

Q. Let me suggest this to you, just to take an example. The farmers of western Canada are not in a position to-day to buy their farm implement requirements. If, by virtue of some bonusing scheme or something, they were actually given the purchasing power with which to buy their necessities in the way of farm implements and household equipment, in the first place, probably prices would not be raised. That is correct, is it not?—A. It depends upon the volume, of course; but probably they would not rise much.

Q. No.—A. I mean if there is any reasonable assumption about the volume.

Q. If you did that your prices would not be raised. In fact, according to the farm implement manufacturers, they could decrease their prices; because they claim the reason they have raised them in the last four or five years is on account of falling demand, with rising burden owing to the decreased number of units produced. That is correct? You know that is the case?—A. Yes.

Q. Mr. Towers, suppose you actually do restore the purchasing power of the farmers and enable them to restore their productive power in that way. Who in the world is harmed?—A. What do you do after having done that for one year, necessarily in the form of a gift? There is a certain surge of business as that money is spent, just as there was in the case of the veterans' bonus in the United States. When that finishes, do you do it again next year?

Q. As a matter of fact, having regard to the amount you would pay in your bonus, if I know anything about the needs of the people in this country—and I know the needs of the farmers whom I represent—I believe it is correct to say that they are so great that, to get them to a standard of living comparable with that of the civil servants at Ottawa, for example, it would take ten or fifteen years.—A. I undersand that. But that does imply the necessity for continuously, year after year, making these grants.

Q. Very well; who is hurt by that? That is what I want to know.—A. The grants, of course, necessarily come from the people of the country as a whole.

Q. Mr. Towers, I am assuming that you are enabling idle factories and idle men to go to work to produce those demands. To-day they are idle. Is it not better to have them producing those demands than to have them idle?—

[Mr. Graham Ford Towers.]

A. I think you will find, nevertheless, on the basis of the grant which we mentioned, that it is impossible to conjure the thing up from thin air, so to speak. It does not only apply, naturally, in the case of the people you mention.

Q. It applies all over Canada.—A. It applies all over the country. You would have a proposition roughly comparable to that of the monthly dividend, on the theory that, if the government did hand out that much in the way of money, every one would be better off, that there would be no sacrifice involved on the part of any section of the community.

Q. I am not suggesting a monthly dividend.—A. Well, a grant.

Q. I am suggesting that you say to your producers in this country that they are as much entitled to a minimum standard of living as their labourers are—for example, in the railroads and other industries; I suggest that the same principle should apply. Having decided on that, I suggest that you provide them in times like these, times of low prices, with the necessary means to produce their basic goods, I suggest that by doing so you merely put idle people and idle factories to work, and it really does not cost your economy anything.—A. I think, if I may immediately answer that point, that if one sticks to the very simplest conceptions of the thing those are nevertheless the most accurate. We know that the trouble in certain cases is that people produce certain things for which they find no market or else a market at a very inadequate price; that those things are sold in the export market and that, as I pointed out in what I have just read, the possibility of increasing Canadian consumption to an extent which would cure the situation is simply non-existent. We could not eat all the wheat that we can grow.

Q. But that is not the point.—A. Please let me finish, Mr. Tucker, because I think it is the point. The trouble, therefore, is that these people have certain things which they cannot sell and which other Canadians do not want. Normally the process of living is a production of certain things by some people; other things by other people, and an interchange of the two; that interchange being facilitated by the monetary mechanism, but not caused by it. Certain people, therefore, have goods which they cannot sell abroad and for which there is no demand in Canada. These people under your proposal are given grants of a fairly substantial character—in any event that does not make any difference—they are given grants of money which enable them to buy goods from other people. They have not got goods which they can themselves give in exchange, they only have money, freshly created money, shall we say, or perhaps money which the government has borrowed. Well, that naturally helps the standard of living of the people who get the grants at the time they get them, but it is absolutely impossible to visualize a continuing economic system of that type without heavy sacrifices on the part of certain contributors, for which people who cannot produce and sell are being enabled to buy substantial quantities of goods without being able to give anything in return except the money with which the government has provided them.

Q. You say it is not possible to do that without sacrifices. If you limit that to getting your productive machinery running at reasonable capacity, where are your sacrifices?—A. But, Mr. Tucker, the point is that you have got to get the productive machinery of the depressed people operating so that they will have goods to offer in exchange.

Q. But, Mr. Towers, I will tell you something that perhaps you do not realize. The farmers in the west could consume twice as much of their own products if they were not pressed to dispose of them in order to meet obligations. There is no doubt that in a large section of Saskatchewan the farmers there could consume twice the amount of butter, eggs and cream which they produce if they were not trying to sell those goods in order to keep afloat under the present situation. Is it not true, then, that if you gave them the means of a minimum standard of living in this country they would create a demand

for your factory products, thus putting idle people to work? As it is they are forced to sell their own products which they should not sell, causing their children to suffer from malnutrition. What I have in mind would be merely putting the productive machine to work. It was the intention of parliament that you should study the possibility of doing that by monetary action. What I am interested in knowing is this: I cannot see, and I hope you will pardon me if I say so, where during the last three or four years you have taken decisive measures to meet that present appalling situation. If you have taken those measures, then I should like to know. If you have not taken those measures it looks as if the high hopes that parliament had when it set up your institution have not been realized.—A. Before dealing with the question of what measures we may have taken may I say that you have not dealt at any stage with my thought as to what is needed to cure the situation of these people. I am not talking about temporary measures of government assistance, which is not within my province, and I am not minimizing the extent of the problem or the extent of the hardships which are felt. Please do not think that anything I say indicates indifference or lack of sympathy there. But thinking of a permanent cure, you have not said anything relating to my expression of opinion that the only way in which you will find a permanent cure is to find ways and means for these people to produce something that they can sell or exchange for other goods.

By Mr. Landeryou:

Q. I should like to ask Mr. Towers if he has a permanent solution to the problem mentioned to increase the purchasing power of the farmers?—A. The way to increase their purchasing power, if you will forgive me for saying something that does sound trite, is what I have said before, namely, that if they can produce goods which they can sell they will have that purchasing power. I do not think it was ever contemplated that the Bank of Canada should be responsible for the entire economic operation of the country. That would be a delusion of grandeur in so far as we are concerned. What you are asking there, Mr. Landeryou, is, have I any solution for the problem that because of developments in the last ten years the Canadian western wheat farmers find it difficult to obtain a market for a sufficiently large quantity of wheat to enable them to be prosperous.

Q. That is not the question.—A. It must be.

Q. It is not the question. The situation in western Canada is that the farmers are producing large quantities of goods. There can be no question about that.

Mr. Woodsworth: Mr. Chairman, pardon my interruption, but I thought it was generally understood that we were to allow one line of questioning to be proceeded with. I think perhaps advantage was taken of that by one gentleman occupying too much time, but Mr. Tucker has not been guilty of that.

The Chairman: I think Mr. Tucker should finish his examination, Mr. Landeryou. You allowed Mr. McGeer to go on, now it is Mr. Tucker's chance.

Mr. Landeryou: I am prepared to drop it if I may be given an opportunity later.

The Chairman: I think so.

Mr. Landeryou: I just had one question to ask. It is in my opinion a very important question. Mr. Tucker raised the point and I should like to have a little more light on it. There have been statements made by Mr. Tucker and Mr. Towers which I cannot grasp.

The Chairman: You will have an opportunity to speak later. Give others a chance, Mr. Landeryou. Go on, Mr. Tucker.

[**Mr. Graham Ford Towers.**]

By Mr. Tucker:

Q. What I wanted to get at, Mr. Towers, was this: The present international situation is as it is, and I am not suggesting to you we should not try to export our surplus products in return for the things we can buy with those products. But we must take the situation as we find it and as we are likely to find it for maybe several years to come. I take it you do not think that would justify failure to operate on the situation by monetary action in order to ensure Canadian economy working at reasonably efficient capacity; that what you are suggesting is, I take it—I may be wrong—that unless we can do something which apparently we are not succeeding in doing we should be content to see the people of the west not consuming all they could of their own products, not consuming all they could of products that might be manufactured by idle men in idle factories in all the rest of Canada; that we should be content to sit down alongside of that situation— —A. No, not for minute, Mr. Tucker. I am not here as much to express views in regard to what the country's policy should be, as perhaps to try to give explanations of the implications of this or that method of procedure. I stick to the simple things because they are the facts. I stick to it that the problem is this: If the Canadian western farmers could sell 300,000,000 bushels of wheat a year—I will use that one product as it is the most important—at satisfactory prices, most of the troubles to which you refer would not be under discussion here to-day. They cannot do so because of lack of foreign demand. Canada can do nothing about that foreign demand in a major way. If, then, the consumption requirements of the farmers are to be supplied in some other form, that is a matter of governmental policy. But we should not forget that the main trouble is that they cannot sell sufficient of their goods to be prosperous, and I do not think a domestic demand for those goods can be developed on any scale which will cure the situation.

So, we are faced with one of two alternatives: Carrying on as we are in the hope that in due course the international situation will clear up and lead to a return of foreign demand; or, if we believe that this is hopeless for ever and a day, then we are faced with the problem of putting a number of farmers to the production of things which can be consumed at home; in other words, changing the whole economy of the west.

Q. Along that line, Mr. Towers, I am not suggesting at the moment anything so fundamental as that; what I am asking you is who would be harmed by this policy that you would adopt in the meantime in this emergency situation, which is recognized as such, and in justifying a permanent shift in our economic set-up? Who would be harmed by a policy of looking after those people who are worth while keeping, in the economic situation, giving them enough to have a reasonable standard of living based only upon the productive power of themselves and the rest of the country to supply— —A. Mr. Tucker, may I interject there? I am obviously very bad at making explanations because you just referred to their productive power, although a minute ago I thought we had agreed that that productive power to a certain extent is non-existent, because it is productive power in relation to products for which there is not a demand.

Q. Oh, now, Mr. Towers, I have suggested to you that if it were not for the economic pressure on them the people of this country could consume, I am satisfied, twice the butter, twice the meat products and twice the cream.—A. Oh.

Q. Well, I have no doubt about it in my mind, and I have no doubt in the world that to give the people of this country adequate houses to live in would keep our lumber mills busy for the next 15 or 20 years. The same remark applies to adequate household equipment, and we can do that within the four corners of our country.

Mr. LANDERYOU: Hear, hear.

By Mr. Tucker:

Q. Do you not think that if you, the leaders of economic thought in this country, do not make your economic set-up conform to what can physically be done something is going to happen?—A. Yes, Mr. Tucker, but I come back to the principal point, that is, I come back to the question of wheat, which is of major importance. I insist that it is absolutely impossible for Canadians to consume three or four hundred million bushels of wheat, and I insist that there are farmers engaged in the production of that quantity of wheat. The actual amount of their production will, of course, be affected by weather; but they at least hope that that much is coming out of the ground. I realize that they have demands for many things which they have not got now; that they want to consume more, and I wish to heaven that the situation were such that they could sell their products on a basis which would give them abundant prosperity. But unless and until there is a market for what they produce, or unless and until they go into some other form of vocation where they can find a market domestically, what is done for them in the interval must be done at the cost of a certain sacrifice so far as the rest of the country is concerned, because you must have some goods to give in exchange. If you consume goods but are unable to give goods in return there is a sacrifice on the part of some one.

Q. Do you think, Mr. Towers, it would be more of a sacrifice for the unemployed, for example, in the city of Windsor, to be happily at work producing cars than to be walking the streets in idleness? Would there be a sacrifice for them?—A. No, but of course some one must provide the materials, and so forth, for the cars.

Q. Would it be a sacrifice on the part of the people to be employed cutting the timber to go into those cars instead of being idle?—A. One does, of course, get led down side paths in considering this and that aspect and its effect on various individuals. After all, if one could accept the main proposition that if a person consumes goods but unfortunately has no goods to give in exchange, there is a gift or a sacrifice involved there, I think we would have the answer to the proposition in a moment.

Q. You are begging the question when you say there is a sacrifice involved. I have asked you right from the start where the sacrifice is if you merely put idle hands and idle factories to work? Where is the sacrifice; that is what I want you to answer?—A. On that basis, a large number of people in the country or half the people in the country can do nothing, and the other people would supply them. Would there not be a sacrifice involved there to the half which supplied?

Q. I say you put unemployed men to work. Where is the sacrifice there? I am referring only to that question.—A. I think that you would find that the sacrifice took this form; that the amount of consuming power which became available, and which did call into play certain of the unemployed factors in the economy would also result in a higher price level, and that is the form which the sacrifice would take. But may I say this: that to express views on this particular point and to draw all its implications without wasting words and without saying things in a way which creates confusion is, I find, very difficult. I think I could put it down in black and white in very brief form and express it best at the next meeting.

Q. All right. You made some remark about Dr. Schacht in answer to Mr. McGeer's suggestion that monetary action was not regarded as very important in Germany, and I suggested exactly what I am putting to you now. I suggested they followed a policy of monetary expansion until they had used up their idle resources in the way of man-power.—A. I think I said everything that I know of, in brief form of course, on that subject in the memorandum that I read.

Q. Well, now, along that line, I should like to read to you—I hope nobody will think I am approving of the attitude on foreign affairs in Germany; I have

been accused of that because I have given some suggestions with regard to the things they are doing on monetary action in Germany. Dr. Schacht gave an address in New York in January of this year, and I suppose you are familiar with it?—A. I did not know he had been over to this continent, no.

Q. At page 8 he says—

The CHAIRMAN: Before what body?

Mr. TUCKER: Before the Deutsche Akedemie.

Mr. TOWERS: Yes, in Germany.

By Mr. Tucker:

Q. It was delivered on November 29, 1938, and read before the Deutsche Akademie.—A. Yes, I have read that.

Q. I thought you would be familiar with it. Now, here is what he says along that line:—

> As soon as an economy has made use of all available labour and materials, any further credit expansion is not only senseless, but actually harmful.

I think I should read this part because it is very interesting.

The CHAIRMAN: What year?

Mr. TUCKER: The fall of 1938.

The CHAIRMAN: They are in the midst of their armament preparations then as far as labour and employment are concerned.

Mr. TUCKER:

> For then newly created money can no longer effect a further increase in goods production but can only bring about competition for the available labour and raw materials, and such a competition must necessarily lead to an increase in prices and wages, despite all measures of state control. Now the term "full employment" is naturally elastic. An economy as large as the German economy will always be able to mobilize some labour reserves and realize some success in rationalization. But there was no more room for a credit expansion in the former style, and the authorities drew the inevitable conclusions. On April 1, 1938, credit creation by the central bank was stopped, and the financing of government orders was shifted to taxes and loans. The period of transition was covered by the issue of delivery certificates.

Now, I am putting it to you, Mr. Towers, that we can go a long way by use of such credit through the Bank of Canada in putting to work our unemployed in producing the things we need before we would experience a situation such as he refers to.—A. I would be the last to deny that there are possibilities in Canada, even with the handicaps which we have as compared with a country such as Germany from certain points of view. I would be the last to deny that there is nothing in that, but I did try to indicate in my memorandum to-day what I thought were some of the limiting factors which are found in Canada. I cannot define here exactly how far we can go, or what direction our activities of that kind should take, but I agree there are certain possibilities along these lines, as I tried to show in the memorandum. I believe there are, also, a number of limiting factors.

Q. Do you think that we are following the possibilities?—A. I should not like to express an opinion on that. It is certainly the case that our government spending across the country, of a deficit type, during the course of the last eight or nine years, has been enormous. It is that type of spending which is visualized in connection with the theory which we have under discussion. Whether it was

all of the very best type, calculated to give the most employment, whether it was of a character which would strengthen the economy and therefore not be a drag later on, brings up too broad a subject for me to express an opinion on. In other words, we have done a great deal; perhaps we could do some more, but there are certain limiting factors and dangers which we should watch out for because of the character of our country as compared with one which is more self-contained.

Q. Along that line, Mr. Towers, you think we are justified in saying we have exhausted the limits of monetary action when we have the number of unemployed we have in the country, the number of idle factories and a price level that is about 20 per cent below what it was in 1926? Can it reasonably be said that we have exhausted the limit of monetary action?—A. I think, Mr. Tucker, that I should point out that monetary action has two aspects. First of all, there is the arrangement, shall we say, of the monetary situation which makes ample funds available. The second aspect is the activity shown in the spending of these funds. The first part is a question of banking policy; the second part, as I pointed out, is private policy in connection with private spending, government policy in connection with government spending.

Q. That brings up another point. I am not going to take too long, but I should like to follow this up for a few minutes.

Some Hon. MEMBERS: Go ahead.

By Mr. Tucker:

Q. You say that our banking system must make available a certain amount of money, but I suggest to you that one of the things that it was supposed to operate on was the price level?—A. The price level is affected by spending.

Q. Yes.—A. The price level, of course, will not be affected no matter how large the volume of money is, if the money lies idle.

Q. That rings up another point, of course. Your only substantial control of the money that is in the hands of the people of Canada to-day is subject to the overriding control of the chartered banks of the country?—A. No; I would not put it that way. The volume of deposits in Canada is $2,500,000,000. No one has any control over that except the owners of that money.

Q. Yes; when I suggested this, for example, that the amount of money put out by the Bank of Canada should be increased, the answer made by someone is that the banks to-day are putting out as much in the way of loans—which create the effect of purchasing power of the people—as they can do, because they must have willing borrowers, and therefore no matter how much you wanted to raise the price level in present circumstances you could not do so if you raised the reserves tremendously, because the banks to-day are loaning all they can put out, thereby increasing deposits to willing borrowers; and therefore you are taking the attitude under the present system that you cannot increase the amount of effective money in the country because the banks say it cannot be done?—A. Oh, not at all, because the amount of effective money in the country—that is the amount of deposits—has increased tremendously in the course of the last few years.

Q. By loans to government?—A. Yes, that is by deficit spending, to which we just referred.

Q. I suggest this to you: the only way that you have been able to get an increased amount of money in the hands of the people has been by getting the government to go to the chartered banks and borrow, and that is the only way you have managed to increase your money supply?—A. Well, I would come back to the reference of "getting the government to go to the banks to borrow" which is not necessarily the way it operates. When the government makes an issue, you find the great portion of that is taken up by institutions and individuals who have bank deposits in their hands, and they invest these in government loans.

[Mr. Graham Ford Towers.]

Q. I understand that.—A. I think very frequently the assumption is made that all government bond issues serve to increase bank deposits. May I just finish that. I wanted to deal with the actual situation.

Some Hon. MEMBERS: Let us have it.

The CHAIRMAN: Let the governor of the bank finish his statement.

Mr. TOWERS: Let us assume that government debts over the past five years —I am not going to use actual figures because I do not remember them—have increased by $700,000,000 or $800,000,000. All of that amount, in the first instance, may have been bought by individuals and institutions, but it might then be the case that the banks under pressure to increase their assets, because of the abundant cash reserves, will subsequently buy these bonds from the people who hold them, thus increasing the banks' investments and increasing their deposits at the same time. But that process of increasing bank investments and deposits could have taken place even if there had been no government deficit and no increase in government debt. As a matter of fact, it has taken place concurrently with certain increases in government debt.

Q. I should like to read along that line what Mr. Dobson said on January 14, 1939. He is quite a banking expert, and made some reference to that subject. I am reading a newspaper quotation, and it is from the *Winnipeg Free Press* of January 14, 1939.

Mr. KINLEY: He was not speaking before a committee of this house?

Mr. TUCKER: No. This is what he says:—

> Our primary business is commercial banking, but as has been pointed out on numerous occasions, we cannot compel unwilling borrowers to use our surplus funds if, because of lack of confidence or for other reasons, they are not prepared to expand their business; and prudent bankers must of necessity guard against taking unwarranted risks. Consequently, the only way in which surplus funds can be put to work is to invest them in government bonds . . .

Mr. TOWERS: Just what I said.

By Mr. Tucker:

Q. As a matter of fact, I think it has been your purpose to provide for commercial expansion during the last four years by increasing the cash reserves of the banks. That is correct, is it not?—A. I think it has been our purpose to provide for exactly the expansion that has taken place; in other words, to provide for an expansion in banks' holdings of government bonds so that during this difficult period governments could finance as cheaply as possible, and also so that private industry could finance or refinance as cheaply as possible—that money rates, in other words, should be low. Our policy has been directed or has been framed with that in mind, as well as with the idea that such increase as there has been in loans could be financed by the banks without necessitating contraction in other directions.

Q. So I take it that your purpose in providing these increased cash reserves was to enable the banks to increase their investments in government loans by approximately $439,000,000 and at the same time decrease their loans to commercial institutions by over $30,000,000. Was that your purpose?—A. No; because there has been no necessity, no reserve necessity, for them to decrease their loans.

Q. But they have done so?—A. Excuse me. I think they have increased, have they not?

Q. What is that?—A. Of what period are you speaking?

Q. I am speaking of the period of the last three or four years. They have actually decreased their commercial loans by over $30,000,000, and increased their government loans by four hundred and some odd millions.—A. May I just look at the figures?

Q. Yes.—A. Say, from March, 1935, or what period do you mean?

Q. If you take the period from, say, the end of the fiscal year in 1935—September, 1935, to September of 1938—it will be all right. That is three years.—A. September, 1935? I have December, 1935. Would that do?

Q. Yes.—A. At that date, the total of Canadian loans—that is, of public current loans, which are the business loans and do not include call loans—was $820,000,000. In that period of comparison, you are right; yes, loans have gone down $14,000,000. If you take the figures from December, 1936, you will find that the increase is $131,000,000. The loans in December, 1936, had gone down to $675,000,000; and at the end of December, 1938, they were $806,000,000. I should point out that even at the tail end of the depression, there were certain substantial loans which were liquidated from time to time. I can think of the C.P.R. $60,000,000 loan which was liquidated by the sale of securities in the market. I can think of the old wheat board loans which were very heavy when we had accumulated that big surplus; those were liquidated. There were various other things of the same kind. I may say that liquidations of that character are not harmful.

Q. But my statement that, during the period of the three years—that is, from the time that the present administration came into office until the present—as a result of your monetary policy (the effect of it anyway, whether it was the purpose of it or not) was that your loans to governments have increased by over $400,000,000 and your loans to commercial institutions have decreased, is still correct, is it not?

Mr. Kinley: Just the opposite.

Mr. Tucker: No, it is not the opposite.

Mr. Towers: That is not a reason—

The Chairman: Order.

Mr. Towers: That is not a result of monetary policy.

Mr. Tucker: That is what has happened. Let us get that established, because some members say that is not correct.

Mr. Towers: One must also remember, of course, that the decrease that has taken place during that time presumably represents a very substantial decrease through the liquidation of loans of the character that I have mentioned and an increase in other loans.

By Mr. Tucker:

Q. In other words, the loans to commercial institutions, in spite of your expansionist policy, have been decreased; there has been an increase in government loans accompanied by a decrease in loans to the people doing the business of the country?—A. That decrease has taken place for the reasons that I mentioned, and I would say it is due to the liquidation of the wheat board loans which were at a very high figure at that initial time we are speaking of.

Q. But if your economy is functioning properly, when one commercial loan is paid off it should be, if your economy is going to expand under your present banking system, replaced by a new loan in some other direction. You are contracting the amount of money available in the country unless you replace it by deficiency financing or government borrowing.—A. I think, in so far as the reduction in bank loans is concerned, that one must put in a special place, liquidation of heavy stagnant loans against surplus stocks. But, by and large, I would agree with you that a continuing decline of bank loans is a mark of an economy that is not doing well. I should be very glad to see these bank loans much higher. I am certainly not arguing in that sense. But it is not monetary policy which can make them higher.

Q. All right. What I want to get established, first of all, is that since this administration has come into office, in spite of your actions as a result of your expansionist policy or your easy-money policy—in spite of it, we will say, or regardless of it, or whatever way you want to put it—the effect of what you have done has been that commercial loans have decreased and loans to governments have increased by over $400,000,000. That is true, is it not? I just want to get the facts; because you have given an explanation, on the one hand, that big loans have been paid off and I answer you and say, "Yes, and equally big loans that should have been made have declined."

Mr. Cleaver: Would you permit a question, Mr. Tucker, in order to clarify this?

Mr. Tucker: Yes, certainly.

Mr. Cleaver: Are you suggesting, Mr. Tucker, that, as a result of the policy of the Bank of Canada, private banking institutions demanded or put on pressure for the refunding or the redemption of these loans? Was it not on account of the lowering of interest rates that it was profitable to the C.P.R. and to these other institutions to sell bonds and stop borrowing from the banks?

Mr. Tucker: I do not think that is the reason for what has happened. But what I want to get at, first of all, is to establish that certain things have happened; because when I ask a question a lot of people say it is exactly the opposite. Having once established that that is the case—if Mr. Towers will tell me that it is the case—I will go on and ask him if my original statement is not correct, that the last word to-day rests with the chartered banks.

Mr. Towers: I will never dissociate the figures from the underlying reasons for movements in them. I have given the answer along those lines. That is as far as I can go. There is the other feature which you mention, which is quite a separate one; that is, that certain loans which should have been made have not been made. Naturally, one can never say anything about that unless one knows the specific cases.

Q. So it is unfair, is it not, to say that because you happen to know of certain big loans that have been paid off, it is an unusual situation?—A. But I know those loans and have named them.

Q. But you do not know the loans that have been declined?—A. I do not know the loans that have been declined.

Q. So, therefore, you are introducing— —A. If you do and would name them, I should be glad to have a look at them.

Q. You know very well that I cannot. You know these particular loans and you are introducing one feature of the situation and not the other.—A. Mr. Tucker—

Q. What I want to do is this—

The Chairman: Order, please.

Mr. Tucker: I want to ask you certain questions.

The Chairman: Well, ask them.

Mr. Tucker: Yes.

By Mr. Tucker:

Q. Here is the first thing. It is correct, is it not, that the banks of this country have decreased, in the last three years, their commercial loans by, you say, $14,000,000? The figures that I had were over $40,000,000. But let us say it is $14,000,000.—A. On those dates.

Mr. Cleaver: They were at the customers' wish.

Mr. Tucker: That does not matter.

Mr. Cleaver: If there is pressure put on by the bank calling in the loan, that is quite a different thing. But this is a customer coming along voluntarily and saying, "Here is my money; I can borrow cheaper somewhere else."

Mr. TUCKER: What I am getting at is what has happened and our failure under our present system to prevent it from happening. I am not going into the reason for what happened.

Mr. KINLEY: We do not need as much money to finance 37 cent potatoes as we do to finance $1 potatoes.

Mr. DONNELLY: Might I ask a question here, Mr. Tucker?

Mr. TUCKER: Yes.

By Mr. Donnelly:

Q. Mr. Towers, I understand that you have an easy-money policy at the present time; is that right?—A. That is right.

Q. I understand that our banks have plenty of money to loan out so long as they can get security to loan it on?—A. That is correct.

Q. And they are anxious to put it out as long as they can get security?—A. Yes.

Q. I have sort of agreed with that, to a certain extent, and felt that it was true; but certain evidence which has come to my hand lately makes me doubt it very much. Take the province of Saskatchewan, for example. Right in the province of Saskatchewan to-day we have a problem on our hands with regard to seed grain. Our farmers are needing seed to put in their crops. This government has loaned the province of Saskatchewan $1,500,000 in order to assist the farmers to put in their crops. The loan companies have loaned them something in the neighbourhood of $400,000 or $500,000—in the neighbourhood of half a million—to help them get seed and help them to put in their crops. The private owners of land have loaned their renters a certain amount of seed to help them put in their crops. Now the province of Saskatchewan comes to the banks and asks the banks to loan them half a million dollars in order to help them to finance the farmers to put in their crops, and the banks say, "Not unless you get the dominion government to back the note." You call that an easy-money policy? I do not call it an easy-money policy.—A. The banks themselves would have to answer that. An easy-money policy, as you say, places the banks in a position where they are very, very keen to get loans, where they have ample resources to make loans. Whether or not they are acting properly in making or not making loans—in refusing or agreeing to specific loans—only they could answer. If they refuse to make them, it will not be for reason of inadequate resources but because they do not believe it is safe.

Q. Mr. Towers, these banks have as much interest in that country as the loan companies have. They have their money loaned out around the country, and they must surely know that if the farmer does not get his crop in and they cannot seize his land, there is no chance of them ever getting their money back. Surely if they will not lend it where they have the security of the whole province of Saskatchewan behind it, there is something wrong. On top of that, the government of the province of Saskatchewan has passed legislation this year compelling every farmer, when he brings in his wheat, to get the permission of the municipality before he can sell a kernel of it. The municipality has to sign that receipt he receives for his wheat before he can get the cash, and they can take the money out to pay back for the seed if they want to, because they are equally responsible with the banks. In the face of that, if you can call that an easy-money policy on the part of our banks, then I think the quicker we close down these banks and get a national bank or something of the kind to handle our money policy, the better it will be for us. I think this is terrible.

Mr. LANDERYOU: Hear, hear.

[Mr. Graham Ford Towers.]

Mr. Towers: They, of course, must answer any questions along those lines. You would not expect me to reply.

Mr. Donnelly: I think it is time this was brought to the attention of somebody, and I think it should be brought to the attention of our Department of Finance. I think that our Department of Finance should take steps along these lines to inform our banks that unless something is done, they will take action. When they are opening up and asking the dominion government to guarantee every note and every bit of money that is borrowed, it is time we got some other kind of banking system. Something ought to be done to these banks to bring them to time.

Mr. Landeryou: Hear, hear; that is talking.

Mr. Tucker: What Mr. Donnelly has said bears out exactly the position I took a moment ago.

Mr. Landeryou: You agree with Mr. Aberhart.

Mr. Donnelly: No.

Mr. Tucker: I suggest that in spite of the need of credit in this country—

The Chairman: Order.

Mr. Tucker: And in spite of your easy-money policy—

The Chairman: Order, please, Mr. Landeryou.

Mr. Tucker: —the only time the banks have put increased money in the hands of the people by making loans and increasing deposits has been when governments have stepped in and helped them; otherwise there would actually have been a deflationary movement brought about by the banks decreasing the amount of money in existence.

Mr. Towers: What you are saying there, as I understand it, is that there have been many cases of the banks refusing to make loans which they should have made and for which they had ample resources, that from the point of view of monetary policy there was no brake to the making of these loans?

By Mr. Tucker:

Q. I will go into that. I want to get the facts.—A. I just wanted to understand. You think from the monetary point of view the possibility of making loans was there, but you believe there have been many cases where the banks have foolishly declined to make them?

Q. I am not putting that question to you, Mr. Towers.—A. I am just asking it so I can understand.

Mr. Kinley: That is the point.

Mr. Tucker: No, that is not the point. I will come to that. I can tell you in so many words of banks which called their loans; because of the deflationary movement they had to call them, and that deflationary movement was caused by virtue of your ten to one policy. Deflation starts, the whole thing tumbles in and loans have to be called. I will come to that later.

By Mr. Tucker:

Q. What I am trying to get, Mr. Towers, is a straight answer that that is the case?—A. My straight answer is that it is not the case.

Q. It is not the case that during the last three years, in spite of your failure or as a result of it—I shall not go into that for the moment—commercial loans have decreased and loans to the government have increased?—A. Mr. Tucker, I have answered that again and again. I have given the answer which explained the circumstances. I have said that I will not dissociate the figures from the facts underlying them. I can say no more.

Q. But it is the case?—A. I have answered the question time and again in the only way I can answer it.

Q. But it is the case?—A. I have answered the question in the only way I can answer it.

Q. Figures speak for themselves.—A. And the explanations, of course.

Q. But the figures speak for themselves?—A. If you know what they mean. I did not intend that disrespectfully, Mr. Tucker.

Q. I know how it is meant. That being the case, then we come back to this: The fact remains that the only way you can get 90 to 95 per cent of the money in this country into the hands of the people is by the banks ceasing to make loans or to purchase government bonds? That is true, is it not?—A. Yes, and one must assume, of course, that the banking system operates in accordance with certain well-established principles. If it does not, I suppose there would have to be a change.

Q. Yes, but we are investigating that, Mr. Towers, and I am asking you have we to-day got control of the amount of money that the people need to do business with, or have the chartered banks got control of it?—A. The fundamental control lies in the central institution. The central institution can increase cash reserves. If the chartered banks decided that they would leave that extra cash idle and not increase their loans and investments on the basis of the additional cash reserves, then it is true that the increase in deposits would be simply equal to the increase in cash and no more. That situation has never arisen. The chartered banks have so far always increased assets in proportion to any additions to their cash.

Q. As a matter of fact, from 1929 to 1934 is this not what happened: That the banks curtailed their commercial loans to the extent of almost $900,000,000?—A. $540,000,000. That is public current loans in Canada.

Q. For what period?—A. December 31, 1929, to June 30, 1934.

Q. All right, and that meant that if the banks had not increased their investments in government bonds the amount of money in circulation in the country would have been decreased by that amount? Is that not true?—A. Yes.

Q. And is it not true that if government borrowing had not come into the picture and enabled those bank deposits to be replaced such a tremendous reduction as that in the money of the country would have perhaps created a collapse?—A. That reduction would not necessarily have taken place because the banks might have bought existing government bonds from their holders, and did to a certain extent.

Q. If the government bought existing government bonds?—A. If the banks bought existing government bonds.

Q. Yes, if the banks bought existing government bonds from their holders they would give, I suppose, a credit to the people from whom they bought those bonds for that amount? Is that not true?—Yes.

Q. So that the buying by the banks of government bonds would not actually increase the amount on deposit?—A. Yes, because when they bought the bonds from the existing holders, the holders, instead of having the bonds, would have a deposit balance in their favour on the books of the bank.

Q. All right, and that is all that would have happened. The banks could have bought those bonds by putting a credit to the person from whom they bought them?—A. Yes, and that person, of course, could use that money in any way he saw fit.

Q. But you suggest then, do you, and I am asking you this because I suppose you threw that suggestion in to make a contribution to an understanding of the actual situation, that the increase by the banks in the investment of government bonds was due to that?—A. Was due to which?

Q. To the thing that you suggested, the buying by the banks of existing bonds. Now, Mr. Towers, I know that during that time the government increased their loans by twice that amount, and the banks increased their holdings of those loans by between $800,000,000 and $900,000,000 and that the government borrowing during that period increased by at least that amount?—A. Yes.

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Q. Then I suggest to you that what happened was that the government—it does not matter whether they bought existing bonds or new bonds—the fact remains that the government issued in bonds $800,000,000 or $900,000,000 during that period.—A. Yes.

Q. I come back to this, Mr. Towers, that if it had not been for deficiency government financing replacing that destruction of purchasing power, you would have had an actual contraction of purchasing power by that amount?—A. I have tried to point out that while in actual fact the developments were very much along the lines you suggest, it would have been possible for the banks to add to their government bond holdings and to increase deposits as a result of that even if there had been no government deficit, because I can point to a country where that has taken place. In other words, I am not trying to contradict your view of what actually happened, but just to point out that if deficits had not been increasing it would still have been possible to buy more government bonds.

Q. What I am getting at is this: That under the circumstances at that time the government actually stepped in to replace the purchasing power that the banks were cancelling out?—A. Oh, I can hardly give that interpretation to it.

Q. But that was the effect?—A. I would say that the course of business and world events was producing that situation and the impact of it on the government caused governmental necessities in the way of expenditures to rise, hence the deficit.

Q. But that is the effect of it, the effect of them calling commercial loans and creating all the conditions which made government enter the picture, falling prices, unemployment, and so on; it made it necessary for the government to come in and borrow, and that they by so doing replaced the purchasing power which the calling of private loans wiped out?—A. As I have said earlier, I am not here in the capacity of some one defending the banking system. I do not suppose you suggest that all that reduction in loans was extracted from unwilling borrowers by pressure?

Q. I say that was the effect of what happened.—A. I would say that the well-known depression did produce those effects on business, falling prices, liquidation of stocks, and it also caused unemployment and all the government procedure to which you have referred.

Q. And the government by coming in to look after the situation borrowed and replaced the purchasing power that had been wiped out by the banks?—A. Government borrowing and spending, of course, provided a certain purchasing power at a certain cost.

Q. I am speaking of their borrowings.—A. I think they are two different things. Government deficit spending did support the country at a certain cost, but it did support it during that acute period. But as to the creation of deposits which came concurrently, I cannot interpret it as you say as a replacement of purchasing power by the government. But I may be astray there; I am a little confused on your point.

Q. Had the government not done it there would have been a fall in the deposits in chartered banks?—A. Not necessarily.

Q. You say that the banks could have purchased existing government bonds?—A. Yes.

Q. Very well, I do not want to labour that point any further. There is another point I should like to epitomize in a few words. During the last three years the banks have increased holdings of government bonds by over $400,000,000? That is true?—A. During the last three years?

Q. Yes.—A. From 1935 to 1938 about $200,000,000. Those are dominion-provincial government bonds.

Q. From 1936 up to the end of this present year—3 years?—A. 1936?

Q. From the fall of 1935 until the fall of 1938. As I remember the figures they had increased their holdings of government securities by almost

$400,000,000?—A. I happen to have here the figures as of December, 1935, dominion-provincial government holdings $956,000,000. December, 1938, $1,162,000,000, an increase of 206,000,000 in that particular period.

By Mr. Landeryou:

Q. Just one question, Mr. Towers,—

The CHAIRMAN: Order. Let us finish this statement first.

Mr. LANDERYOU: I should like to ask Mr. Towers a question.

The CHAIRMAN: There are a great many questions I should like to ask and I am sure there are other questions which other members of the committee would like to ask. Let Mr. Tucker finish.

By Mr. Tucker:

Q. I understood you to say—I have not the figures—that in the last four years, I think, there has been an increase of a little over $100,000,000 a year in the holdings by the banks of government securities.—A. Yes, that would be right.

Q. The effect of that was that the banks traded their obligations to the government by giving them a deposit for the interest-bearing obligations of the government to pay the banks; in other words, when they took up that $400,000,000 the government gave its bond bearing interest at probably 3½ per cent— —A. Oh.

Q. Well, whatever it was.—A. On short-term bonds, on treasury bills, it might be ·64 per cent. On short-term obligations it might be 1, 1½ or 2 per cent.

Q. You would say that the bulk of that $400,000,000 would bear interest at about what rate, approximately?—A. I should think it would not average more than 2 per cent.

Q. Then the government exchanged its obligation whereby it promised to pay the banks $400,000,000 at 2 per cent and the banks agreed to pay the government $400,000,000 without any interest? That is correct, is it not?—A. Yes.

Q. In other words, it was an exchange of obligations? That is correct, is it not?—A. Yes.

Q. It is otherwise known as getting credit monetized? That is a reasonable expression, is it not?—A. I suppose so.

Q. I was just wondering what justification there is for a government, which is in control of legal tender and can make anything legal tender, paying a fee of 2 per cent to a private institution for making its cheque something less than legal tender but at the same time monetizing it.—A. In the ordinary course of events a government borrows the savings of the people. That is quite a different situation from one where the banks' holdings are increasing.

Q. But what we are dealing with is the present situation.—A. Over a certain number of years government debts have increased by some hundreds of millions. Concurrently with that the monetary policy pursued has been such as to urge the banks to increase their security holdings, and they have. That process pretty well ceased between the end of December, 1936 and December, 1938. Well, perhaps your question would be: why should the government have operated in that form at this particular time? If the occasion was different and they were borrowing from the people and not from the banks, that would be a different thing. Well, I would say that the government in this case got funds which they wanted to use and perhaps they wanted to give the people from whom they were buying goods or to whom they were making payments something which they could conveniently use; in other words, a bank deposit on which those people got interest. Whereas, if you operated in a different way you might simply give a man a form of money on which he could get no

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interest and perhaps would even have to pay a charge to the bank for keeping it.

Q. Yes, but that brings up the other suggestion. You actually increased your money during that period by roughly $400,000,000?—A. Yes.

Q. And my suggestion is that if you actually increased the amount of money emitted by the Bank of Canada to the extent of $400,000,000, and at the same time provided that against that special issue of money the banks could only loan dollar for dollar, you would not have increased the amount of money in the country any more than you did by borrowing it from the banks?—A. I think that goes back to the remark that you made in the House on February 16, and that memorandum which I put on the record in reply. I remember you saying that you did not think it was a satisfactory reply, and I am very glad it came up again.

Q. I want to go into that, but I wonder if we can do it at this stage.

The CHAIRMAN: How long will it take?

Mr. TUCKER: Not longer than half an hour.

Mr. CLEAVER: Before you adjourn there is a correction I should like to make. The minutes of April 5 at page 115, credits an interruption to me which I did not make, and I should like to make a correction. In these minutes I am reported to have said:

"Mr.CLEAVER: No; but has it done any good?" I state emphatically I did not state that, and I should like to have the correction made.

Mr. TUCKER: Before we adjourn I should like to comment on a remark that was made in a certain newspaper about Mr. McGeer and myself.

The CHAIRMAN: Do you want it on the record?

Mr. TUCKER: No.

Mr. CLEAVER: Before you adjourn I should like to move that the committee get permission to sit while the house is in session.

Mr. HOWARD: I second that.

Motion agreed to.

The committee adjourned at 1.05 p.m. to meet again at the call of the chair.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 7

MONDAY, APRIL 24, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

MONDAY, April 24, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock, a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Coldwell, Donnelly, Dubuc, Howard, Jaques, Kirk, Lawson, Maybank, Mayhew, Moore, Quelch, Ross (*Middlesex East*), Ross (*St. Paul's*), Stevens, Taylor, Tucker, Ward, Woodsworth.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Examination of Mr. Towers continued.

Mr. Towers was requested to prepare a memorandum for the next meeting in reply to questions by Messrs. Tucker and Stevens.

At 1.05 p.m. the Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

OTTAWA, April 24, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

The CHAIRMAN: Order, gentlemen; we have a quorum. Mr. Tucker has the floor.

Mr. TUCKER: Before I go on with what I said I would go on with this morning, I should like to deal with a couple of things. I should like Mr. Towers to prepare, if he will, a statement of the present relationship between Canadian money and the British pound. I should like him to indicate how much more the Canadian farmer would receive for his wheat, basis Fort William, No. 1 Northern, if our money were at par with sterling, and how much more he would receive if we, by monetary action, caused our money to be at a discount as compared with sterling, of say 25 per cent. I should like him to indicate what the farmer would receive for butter.

The CHAIRMAN: If sold.

Mr. TUCKER: Yes; also for cheese and bacon. Those items are the ones that I am most interested in. I should like Mr. Towers in that memorandum to indicate what reason has been influencing the bank in its policy, at least during the last year and at the present time, of not keeping our money at a par with sterling and what reason has prevented them from going further and causing it to be at a discount compared with sterling. I think that the people of Canada are very interested in that question.

I do not want to enter into this just in the form of a question and answer. I do not think Mr. Towers has dealt with it. I have mentioned it in a question, but I should like a considered statement—and I think the committee would also—as to what has influenced the Bank of Canada in more or less taking the attitude that nothing more can be done in the way of monetary action, when our index figures are at their present level of around, roughly, 80 as compared with 1926.

The CHAIRMAN: The index figures of what?

Mr. TUCKER: The index figure of prices. When it is undoubtedly admitted that to raise the index level would stimulate employment, I should like to know why the bank has been so fearful of taking definite action to restore that price level, or why it apparently has been so fearful. It looks like that to me, at least. I should like to know the actual considerations that have moved the Bank of Canada in their actions so far in being so cautious about operating on the price level at least to the extent of restoring it to the level of 1926; bearing in mind that, apparently admittedly, no matter how much reserve they build up, the banks cannot increase their commercial loans as indicated by the experience of the last four years. So that the purchase of government bonds, as I take it would simply mean that it would increase the earnings of the banks which they would ultimately turn over to the receiver-general of Canada. If it be said that the banks will not reflect the increased cash reserves in putting out additional bank money in the way of commercial loans, I should like to know whether we are to submit to that situation or whether there is no suggested way of getting that money into

circulation. In other words, I want to know what the suggestion of the Bank of Canada officials is with regard to the situation which I suggest they have to-day, that the last word does rest with the banks in regard to putting bank money into existence.

Mr. TOWERS: Mr. Tucker, if I may interrupt there—and this is not a reply to your question but just in order to try to bring up something which will assist us in making a reply—may I say that it is the case, that the increase in cash which we have caused during the course of the last few years has resulted in a very substantial increase in deposits; speaking from memory, something of the order of $500,000,000.

Mr. TUCKER: Yes.

Mr. TOWERS: Not as a result of an increase in commercial loans because of the situation in that respect; but the banks have followed the alternative method as the only one which I think was open to them, of increasing their holdings of securities. So that the amounts of deposits in the hands of the people has increased some $500,000,000, a very substantial increase, and one which is as great or greater than has taken place in most other countries.

Mr. TUCKER: That brings up another point which I should like Mr. Towers to deal with and that is as to the justification for a system which is such that the only way you can get that extra money into existence is by having the banks use the extra reserves at ten to one to purchase government securities whereby, in effect, the banks exchange their promise to pay for the government's promise to pay. The result of that operation has been, as I understand it—and if Mr. Towers does not agree with me, he will say so—that, in order to get that money into existence, it has cost $8,000,000 in interest, assuming that the rate was 2 per cent as suggested the last day we sat. I should like to know if there is not some far less expensive way of getting that money into existence than by increasing the cash reserves so that the banks will increase their holdings of dominion government securities to the extent of $400,000,000; bearing in mind also—and I think Mr. Towers will agree—that the increase of bank money to the extent of $400,000,000 does not mean anything more or anything less in the way of increased inflation or increasing your actual money in existence than if you put that money out with the provision that the banks, against that particular issue of money, could not loan except on a dollar for dollar basis. In other words, the point I am making is that as a result of your policy the only way you have managed to increase your total amount of money in existence has been by causing the banks—forcing the banks, you might say—to put that money into existence by loan to the government at a cost to the government of $8,000,000, when you could have had that money, that $400,000,000, issued directly by the Bank of Canada and you would not have lost that $8,000,000 in interest, providing you said, "Against that particular issue we are making now, in this particular series, the banks can only loan against it dollar for dollar." When that would mean that you would save $8,000,000 or prevent yourselves from having to spend $8,000,000 to get that money into existence in the hands of the people and would prevent any inflationary movement at all; and if when you realize that to the extent, at least, that the extra cash reserves are not going to be used by the chartered banks to increase their loans to commercial institutions, they will be used—and the only way they can be used is to buy government securities—I should like to know whether it would not be more reasonable to use a more direct way of putting that money into existence. That is the point I wish to deal with. Do I make myself clear?

Mr. TOWERS: Yes, absolutely.

Hon. Mr. STEVENS: Mr. Tucker, I wonder if you would mind my interjecting something at this point? I have in mind a question right along that line.

Mr. TUCKER: I do not mind at all.

Hon. Mr. STEVENS: I have been waiting rather patiently to get it in. It is right in line with what Mr. Tucker has been asking.

The CHAIRMAN: All right.

Mr. WOODSWORTH: If I might suggest it, could we not have an answer to this question that has been asked? I find it difficult to carry so much in my mind.

Mr. TUCKER: What I had in mind was to have Mr. Towers deal with it in a memorandum.

Hon. Mr. STEVENS: The only reason I have for interjecting, Mr. Woodsworth, is that I understand Mr. Tucker's question is a request for a memorandum dealing with a rather long involved question.

Mr. TUCKER: Yes.

Hon. Mr. STEVENS: He will himself admit that it is a very involved matter.

Mr. TUCKER: Yes.

Hon. Mr. STEVENS: I think the question that I will ask may narrow it down to some facts which may be a little helpful. That is the only reason I interject at this time. I shall put on record a few figures, Mr. Towers, and they will form the basis of a question which I should like to ask and which is, as I say, similar to Mr. Tucker's.

In 1926 the banks of Canada held dominion and provincial government loans to the extent of $324,000,000. I am giving merely the round figures. In 1928, they held $334,000,000; in 1931, $396,000,000; in 1936, $1,097,000,000; in 1938, December, $1,137,000,000 plus, I believe, about $140,000,000 of treasury bills. That was the set up of holdings by the banks of government loans or government bonds.

Mr. TOWERS: Dominion and provincial?

Hon. Mr. STEVENS: Dominion and provincial, yes. The corresponding figures for commercial loans were these: In 1926, $983,000,000; in 1928, $1,227,000,000; in 1931, $1,141,000,000; in 1936, $707,000,000; in 1938, December, $731,000,000. Since then they have gone up to about $850,000,000 or thereabouts, but I am stopping at December, 1938. It will be noted, Mr. Towers, that after 1931—just taking that figure—the holdings by the banks of dominion and provincial securities jumped about $600,000,000 or $700,000,000 at the same time the commercial loans dropped approximately $450,000,000 to $500,000,000. The point I should like to have elucidated is this: Why is it, apart from the stock answer that loans are not being asked for, that there is such a drastic diminution in commercial loans? I should also like to know if it is not possible in some way—and I should like Mr. Towers to intimate if he can and will show how it could be done—to materially increase the commercial loans and substantially, at the same time, diminish the quantity or the amount of dominion and provincial bonds held by the banks. Or to put it a slightly different way, can we not without doing damage to the market or the price level, bring about a partial liquidation of the fixed assets of dominion and provincial bonds now held by the banks and translate them into active commercial loans? Have I made my point clear?

Mr. TOWERS: Yes, absolutely.

Mr. TUCKER: There is another thing I wish to ask along that line. I should like to ascertain the amount that our federal debt, guaranteed and direct, has increased since 1929. That might be in the form of a table, year by year, if it is available—but at any rate showing 1929 as compared with the fiscal year March 31, 1939, comparing the carrying charge of that debt in both years. I will tell you just why I am asking the question. There is a suggestion—I hope

it will be pardoned in the committee but it indicates very definitely what I have in mind—that it would be quite impossible for any idea to be contemplated to the effect that, say, $50,000,000 to $100,000,000 should be spent in paying the western wheat grower during this time of emergency, because it would increase the debt. What I have in mind is the extent to which it is possible to go on increasing the debt while keeping our different industries solvent in this time of emergency, in the face of present international conditions and decreasing carrying charge. I have my own ideas on it, but I should like to have the opinion of Mr. Towers; because if it is true that the debt has increased, roughly, by a billion dollars and the carrying charge has not increased, it seems rather strange that we should suggest—assuming for the sake of argument that using a couple of hundred million dollars is needed with which to get agriculture by, not only in the west but in the east—that for the sake of not increasing the debt another couple of hundred million dollars we should endanger the whole agricultural industry in a time of emergency, if we can go quite a distance yet, while we increase the debt but lower the carrying charge as we have done in the past. I should like to know the opinion of the governor of the bank on that point, because I think it is very important. That is my own opinion. I shall mention the reason I am asking the question, so that you will be on your guard; because I intend to make use of it in the days immediately ahead, providing it is helpful. Of course, if I do not agree with it, I intend to advance my own theory, anyway. I should also like to have you—

The CHAIRMAN: Do you not think you might change your mind?

Mr. TUCKER: I always bear that in mind. I might be persuaded. There is another thing I should like to deal with, Mr. Towers, and that is the justification for the idea that anything spent in that way is going to be paid off by the taxpayers; in other words, judging by past experience, the extent to which the increase in debt is likely to have to be paid off by the taxpayers within our lifetime or the lifetime of our children. That seems to be quite a great difficulty to get over. Some people think if there is anything done like that they are going to have to pay for it out of their pockets. What I want you to deal with is the question of debt, not only as an obligation of the country but as an asset of a very substantial part of the people of the country, and the extent to which we should look forward to trying to pay off that debt; I mean, as a reasonable proposition, whether we are likely to have to do it and to what extent the fear is justified. I should like you, bearing in mind that the debt was infinitesimally small, for example, in Great Britain following the Napoleonic wars, and that there has been a tremendous increase since then until to-day, to say as to what extent that fear of debt is justified, providing it is owing within the country. Then I should like you, if you would, to bear in mind that I have made the suggestion that there was a thing that I could not understand. Tremendous fear was worked up in the minds of the people at the time the coalition government was first formed under Ramsay Macdonald; the necessity for saving money at the expense of school teachers and civil servants to the extent of a few million pounds was emphasized. The very existence of England was supposed to be threatened. Yet we have the statement to-day that they can go into debt to the extent of billions for armaments. It indicates to me a sort of tendency to frighen people of debt when it serves the purpose of the leaders of finance to do so; and when it does not serve their purpose, to take exactly the opposite view. I should like you to deal in your statement, if you would, with the extent to which that fear of the growth of debt is justified in this country, providing it is owed internally and in view of our set up. I should also like you to have prepared a table, if you will, of the proportion of the actual money, as defined by Dr. Clark in Canada that is not borrowed into existence. That is, there is a very small part issued by your institution; I should like you to state the amount in 1867

that was issued by the state; the proportion then that was issued by the state compared to the total amount; and the proportion to-day that is issued by the state compared to the amount that is issued by the bank or borrowed into existence. I suppose you know what I mean.

Mr. TOWERS: Yes; I am not sure what I can produce, but I see the point.

Mr. TUCKER: I am very much interested in that because there is the suggestion that the provinces at that time turned over the right to issue money to the government of Canada and that we have turned that right over to the banks. I am interested in knowing to what extent that is true.

Hon. Mr. STEVENS: I would suggest, say, ten-year periods.

By Mr. Tucker:

Q. Yes, if you can. You know what I am getting at?—A. Yes. If there is another meeting of the committee very soon I would not guarantee to have answers to all the questions ready.

Q. No. I thought there was a tendency, so far as I was concerned, to argue with the witness rather than to get your viewpoint, and I am interested in having the viewpoint of the governor of the Bank of Canada. I realize that I cannot hope to change your mind, but I am interested in knowing what your viewpoint is. I think that is what I wanted to get covered in the statement which I have asked you to make, Mr. Towers.

I do not wish to take up too much time, but there is one point I should like to deal with this morning. There are several other points I should like to deal with if there is time after the others have dealt with matters which they wish to discuss. I should like now to deal with your memorandum starting at page 89 of the record of the proceedings this year. As I say, this is one point I wish to deal with now and, if there is time later, there are several other points I wish to take up.

This is your statement on page 91 of the record:—

> It is a proposal which, broadly speaking, involves two things: (*a*) Taxation of bank depositors, and (*b*) the setting up of some new form of banking system to make loans. Obviously, if the banks were forced to carry 100 per cent cash reserves against deposits their loans and investments, in fact, all their assets other than cash would be restricted to an amount not exceeding their capital and reserve funds. After December 31 last, this amount was $279,000,000—an amount which is obviously inadequate to finance the requirements of agriculture, industry and individuals. As the banks would have very little in the way of earnings, they would be forced to eliminate any interest payments to depositors. To cover their operating expenses they would, in fact, have to require anyone who wanted to maintain a deposit account to pay a substantial charge for that service.

I shall have to indicate to you, Mr. Towers, what I had in mind and then ask you if that statement of yours would be consistent with what I had in mind. I had this in mind: That as the government debt fell due it would actually issue through the Bank of Canada to the people who had payments coming to them money in denominations of $100, $500 or $1,000, in payment of their debt; that as that increased the requirements in the way of cash reserves should be gradually increased, and that when we paid off ultimately the $3,000,000,000 of debt we would then have issued to the banks the amount necessary to cover their cash reserves and we would have put into existence which would ultimately find its way into the hands of the banks the amount necessary to increase their cash reserves to a full dollar for dollar basis. That being the case, I do not see why it could be suggested that it would in any way curtail their ability to make

loans, because loans would be repaid as they are to-day. I do not see that it would affect their ability to make loans at all. I should like you to deal with that, because I do not see how it would affect their ability to make loans.—A. In the circumstances that you mention the combined balance sheets of the banks would be something of this order: Neglecting for a moment the question as to whether the process would increase deposits—and simply assuming that their deposits are two and a half billion, as they are now, although any figure could be used—it could be five billion—but we will take it at two and a half billion. On the liability side of their balance sheet they would have that liability to the depositors for two and a half billion; they would have a liability to their shareholders for capital and rest funds of $279,000,000. That total is $2,779,000,000. Now, their assets cannot exceed that. It is impossible for them to do so. Included in their assets, by definition, because of the fact that it has been specified that they should have a dollar in cash for each dollar in deposits, you will find two and a half billion dollars in cash. Subtract that from the total of their liabilities and you find that their assets other than cash cannot exceed $279,000,000. Those assets, other than cash, may be various things—loans, working balances with banks in other countries, bank premises, cheques in course of collection—all the range of those items cannot exceed $279,000,000. So that their loans and investments will obviously be less than $279,000,000 to the extent that they have to have something in the other assets I have mentioned.

Q. To the extent that loans are not being repaid?—A. No, because I stick to the point that their assets cannot exceed their liabilities.

Q. Yes, but if somebody comes in and repays the loan? We will say that they actually have $2,500,000,000 on deposit.—A. Yes.

Q. That means that they have assets in the way of loans and investments—A. No, excuse me, Mr. Tucker, not on your figures, because they have $2,500,000,000 in cash.

Q. Yes, but when they have $2,500,000,000 in cash which is deposited by depositors—A. Excuse me, Mr. Tucker, I think that is where the slip comes in.

Q. There is no slip there. I just want to retrace my steps.—A. I think I can clear that up if I may interject.

Q. I want to make my point clear. I said that as the government loans fell due the Bank of Canada would issue in payment to those people, that is, by arrangement with the dominion government it could lend it to the Dominion of Canada or make any arrangement it liked, but at any rate that that money would be issued in payment to the people who had those loans.—A. The government loan falling due?

Q. Yes, and they naturally would deposit that money in the banks of Canada?—A. Yes, but that increases the banks' deposits.

By Mr. Quelch:

Q. How does it increase the deposits?

The CHAIRMAN: Order.

By Mr. Tucker:

Q. Supposing a one million dollar bond is falling due.—A. Yes.

Q. If the government pays that off it decreases the deposits by $1,000,000? If the making of a loan or an investment creates a deposit the paying off of one destroys a deposit.—A. Yes.

Q. All right. Now, that is what happens to-day, but if—A. That is if the government is paying off debts.

Q. Yes. If you actually paid it in cash, as I have said, the dominion government, instead of actually destroying a deposit of $1,000,000, would really be increasing the deposit $1,000,000. Now, can the bank not loan that $1,000,000 just the same as it loans any other million dollars that is paid off to-day?—A. No.

[Mr. Graham Ford Towers.]

Q. Why not?—A. Because you have provided for 100 per cent cash reserve.

Q. It has got the $1,000,000 in cash in its till and it makes a loan of $1,000,000—A. This is a very vital question and it is essential that we should get it settled. It represents the simplest, clearest facts in the whole field of banking and finance, and unless we can get those fundamentals settled it will be absolutely useless to discuss anything else. It will be like trying to discuss algebra without being in agreement with regard to arithmetic, so to speak. In the case you mention where the government pays off in cash and the person deposits that cash in the bank—

By Mr. Quelch:

Q. Wait a minute.

The CHAIRMAN: Order.

By Mr. Quelch:

Q. Is the money paid to a person or to the bank?—A. There will not be any difference in the end, but let us assume it is paid to a person who holds the government bond.

Q. Then he has a deposit; that is a different thing altogether.

The CHAIRMAN: Please allow Mr. Towers to finish.

Mr. TOWERS: We can take that other case if you like. If the person who receives the million dollars in cash from the government deposits it in his bank that bank's deposits therefore rise by $1,000,000, and its cash increases by $1,000,000. In view of the fact that it has to maintain 100 per cent reserves against deposits it can do nothing further because, if it subsequently proceeds to make additional loans, they in turn will increase its deposits, but its cash will not be increased. Therefore, as it is provided that it should keep 100 per cent cash reserves it cannot take any action which will increase its deposits, that is, it cannot take any action on its own account to increase deposits because by definition that would bring its cash reserves below 100 per cent. I think you will find that it is absolutely impossible to construct a bank balance sheet which would show that it was possible for the banks to make any loans or investments under the system you mention except to the extent that they used their capital and reserves for that purpose. After all, if it is possible to do what you suggest it should be possible to construct a bank balance sheet to reflect the situation.

By Mr. Tucker:

Q. I followed you up to that point, Mr. Towers. In other words, the payment by the government of its debt in a series of legal tender could only be used to finance loans; I mean, to back deposits to the extent of 100 per cent, or dollar for dollar; it could not be used as the basis for a further expansion of credit, naturally. But the repayment of a private individual of $1,000,000 of loans would enable the bank to immediately make a similar loan, the same as to-day?—A. No.

Q. We will suppose that there are loans to investors of $500,000,000, to private investors; we will suppose that you finally are on the dollar for dollar basis, that is, you have gradually increased the issue of money until the banks are on a dollar for dollar basis?—A. Yes.

Q. Now, that is reflected, as I understand it, in $500,000,000 of deposits? A. You mean the present loans?

Q. Let me work it out. We will assume that we are on the 100 per cent basis and that there are $500,000,000 which they have on deposit and also $500,000,000 owing by private individuals?—A. Where is the cash, then?

Q. We will assume that the government has issued enough cash to balance it.—A. It is very important to settle this as we go along.

Q. That can be done?—A. It is important to deal with this as we go along. You have on the bank balance sheet $500,000,000 in loans to individuals, have you not, on the asset side?

Q. Yes.—A. And you have $500,000,000 in deposits owing by the banks?

Q. Yes.—A. Well, the banks have no cash then.

Q. I am assuming that you have gradually kept issuing more and more cash in the way of paying off your debts.—A. Yes, but a bank balance sheet must balance, and you have balanced it with $500,000,000 on each side and no cash.

Q. I am assuming that your government has kept issuing cash until the banks have actually, instead of $10, $1 for every $10; that they have in their tills $1 for every $10.—A. You must be able to construct a balance sheet.

Q. All right, I shall take it step by step. I thought you were following me that a depositor could do that. I do not think there is any possible suggestion that it cannot be done. Suppose you have to-day $250,000,000 owing depositors.—A. Yes.

Q. The banks must have in cash to-day— —A. Call it two hundred and fifty millions.

Q. All right. They have to have in cash twenty-five in their tills or in Bank of Canada deposits. Supposing the government this year issues in money a further twenty-five, the government simply issues it—we are saying "twenty-five," which means twenty-five whatever it is; we will say you have $250,000,000 owing by depositors, they must have then on hand $25,000,000 in cash? That is right?—A. Yes.

Q. Then we will say that this year there is issued another $25,000,000. In order to prevent an increase, because the purpose is to get things in a state of stability, the government issues another $25,000,000, the banks must have on hand 20 per cent instead of 10 per cent. The only effect of issuing that extra $25,000,000 is that the government does not have to pay interest on that, that is all. The next year the government issues another $25,000,000 which raises it another 10 per cent, until you have it that the banks only have in their tills a dollar for every dollar they owe their depositors.—Yes.

Q. All right, we have got to that point. There is $500,000,000 owing by investors, represented by $500,000,000 on deposit and $500,000,000 in cash reserves?—A. Oh, well, they then have a billion dollars on the asset side of their balance sheet and only $500,000,000 on the liability side.

Q. I am not worrying about the bookkeeping side of it.—A. But, Mr. Tucker, it must be possible to make bookkeeping reflect the situation.

Q. I have no doubt your bookkeepers can figure out a way if they keep the books that way.—A. Should we not pause at that point?

Q. Is there anything wrong in the steps I have taken?—A. Yes, completely.

Q. Tell me what is wrong.—A. You arrived finally at a point where the banks had $500,000,000 in loans to sundry borrowers; that they had $500,000,000 in deposits owing to depositors and that they had $500,000,000 in cash. That means that they have a billion dollars on the asset side of their balance sheet and only $500,000,000 on the liability side. In the process they apparently got $500,000,000 out of thin air. In fact, that is not what would happen, because you would find that in the balance sheet you have constructed one last step is missing. They would have, shall we say, the $500,000,000 in loans; they would have $500,000,000 in liabilities, in the form of deposits at this stage, but then you would find, that is, if they also had $500,000,000 cash, that their deposits would be $500,000,000 higher than you have anticipated. So that you have a billion dollars on both sides of the balance sheet, but only 50 per cent cash reserves; whereas what we are striking for in this discussion is 100 per cent cash reserves.

[Mr. Graham Ford Towers.]

Q. Well, now, after all, that does not affect the argument as I see it. It is true the banks in the beginning could loan their capital and they could loan to the extent of $10 for every dollar they had of cash reserves in one way or another.—A. Yes.

Q. Well, then, the banks managed to work out a bookkeeping system keeping track of that?—A. We must assume that represents the actualities of the situation, of course.

Q. It does not, though?—A. Yes.

Q. The banks did build up a tremendous amount of assets out of an original capital of around $245,000,000?—A. Yes.

Q. That is what they have to-day?—A. Yes.

Q. They made their bookkeeping keep track of the whole thing. Now, what I am suggesting is, if they were told in the beginning that they could only issue a dollar for every dollar they have on credit, and whenever— —A. That is a 50 per cent reserve.

Q. Let it be 50 per cent.—A. I think, Mr. Tucker, that it would be better to pursue the idea on the basis of 100, because that was the question and we must get that settled.

Q. I am coming to that, but you interjected something about bookkeeping into which I am not particularly concerned about, because the actual machanics of bookkeeping would have to conform to the laws laid down by parliament. I do not see anything wrong with a situation whereby you would have $500,000,000 owing to your depositors and the banks required to have $500,000,000 of cash against it.—A. Yes.

Q. Because you say when people have these loans paid for they fetch the money in and deposit it and that would increase the deposits by that amount.—A. Yes.

Q. You would not have 100 per cent reserve by virtue of doing that, but you would have 50 per cent reserve or whatever it might be, so that it would be quite obvious that some other way would have to be adopted of creating 100 per cent reserve. One of the ways that could be adopted to create the 100 per cent reserve might be for the government to buy back from the banks all the bonds and securities of the government which they hold.—A. Yes.

Q. And that would cancel off the extra $500,000,000 of deposits.—A. No, because the government would be issuing new currency to do that. It would mean the banks, instead of holding $1,200,000,000 of government securities, would hold $1,200,000,000 in cash, which they received from the government; their deposits would be unchanged.

Q. But you are worried about the bookkeeping part?—A. No, the facts.

Q. Well, all right. We will just take the actual suggestion that I made. We will suppose to-day that the amount on deposit is $2,500,000,000, and the amount owing to depositors is the amount of—to make it simple we will say it is the same, and that the government follows the policy I have suggested of paying it all off.—A. Yes.

Q. In the form of new money. Then the amount of deposits would go up to $5,000,000,000?—A. No; in that case it would remain the same.

Q. The amount on deposit would remain the same?—A. Yes.

Q. If you used new money to pay off the old?—A. Could it use that money to pay off bonds which were held by the banks?

Q. I am suggesting we use new money which would ultimately be redeposited.—A. I thought we were speaking of the government buying back securities now held by the banks.

Q. Yes.—A. In that case the bank sold some $2,500,000,000 which they had on the asset side and they received from the government $2,500,000,000 in cash; so that in that event their balance sheet would then read $2,500,000,000 on deposit and $2,500,000,000 in cash.

Q. That is not the line I wish to follow.

Mr. WOODSWORTH: I am going to say that your bookkeeping cannot defeat your arithmetic.

By Mr. Tucker:

Q. There is another suggestion there. I am taking the situation as you have it to-day, in round figures, $2,500,000,000 owing to depositors.—A. Yes.

Q. And $2,500,000,000 owing by the government.—A. Yes.

Q. The government merely pays off the $2,500,000,000 under an issue of money. That money will presumably be deposited.—A. Well, but these are securities which are owned by the banks.

Q. Some of them are owned by the banks and some by other people.—A. I say it is both.

Q. Yes. To the extent to which they are owned by the banks they would not be reflected in the increase?—A. No.

Q. And to the extent to which they are owned by other people they would be reflected in increased deposits?—A. Yes.

Q. Suppose they are owned half and half?—A. Yes.

Q. Well, then, there would be an increase of deposits by $1,250,000,000?—A. Oh, perhaps $2,500,000,000.

Q. No. You say half of them are owned by the banks.—A. Oh, well, in that case you would have to change your balance sheet because as you had it originally it was $2,500,000,000 on deposit in the banks—that is, $2,500,000,000 they owed their depositors, and they had $2,500,000,000 in securities, but the other assumption—

Q. No, I did not say that. I said $2,500,000,000 owed by the government and $2,500,000,000 on deposit in the banks.—A. Well—

Q. Half of that $2,500,000,000 owed by the government is owing to the banks and half to the people?—A. Well, in that case the balance sheet that we are discussing—

Q. I am not interested in the bank's balance sheet; I am interested in this situation. If you introduce that I cannot follow the line. I wish now to follow up. You raise a distinct new point, the point of the bank balance sheet, but I am assuming the government goes ahead and does these things.—A. We are talking about banking, and the bank balance sheet will reflect the facts, the bookkeeping is a minor matter; but this reflects the facts of the case. We must deal with the facts.

Q. All right, we will deal with the facts if you are bound to have them. We will take them as they exist to-day, if we cannot take hypothetical figures. What are the deposits in Canada to-day?—A. $2,500,000,000; that is the liability.

Q. Deposits in banks?—A. Yes.

Q. Is that what they are?—A. That is what they are.

Q. $2,500,000,000; and what is owing by the dominion government to-day?—A. The bank holdings of securities are, shall we say, $1,200,000,000 of dominion and provincial securities—

Q. Owing by the dominion government to the banks?—A. Dominion and provincial.

Q. I am just talking about it from the dominion government standpoint.—A. It is just as good, but I thought we were taking it all.

[Mr. Graham Ford Towers.]

Q. All right. You want the facts, that is all. I would rather have it, if you are going to have the facts, just for the dominion government alone.—A. Well, it is not separated in the banks' balance sheets, but let us say it is $800,000,000 —I am just guessing, I do not know.

Q. That means there is owing to other people— —A. $1,700,000,000; that is, I believe, other assets of the banks in the form of provincial and municipal and other securities and loans.

Q. I am not concerned about that. What I am getting at are the deposits in the banks to-day and they are $2,500,000,000?—A. Yes.

Q. I want to know how much is owing by the dominion government to the banks? And how much is owing by the dominion government to others? I want the total dominion government debt; I want you to give me the figures. I wonder if you can supply the figures since you want to put them in?—A. Well, it was not the exact figures I was so much concerned about as the facts of the situation.

Q. What are the facts?—A. I wish you would put down there the other assets of the banks which are $1,700,000,000 in the form of loans, provincial and other securities.

Q. But it does not affect what I have in mind; however, I will put it down. Other assets— —A. $1,700,000,000. That makes $2,500,000,000 on the other side.

Q. All right, but this is what I am interested in. There is owing by the Canadian government to the banks $800,000,000, and there is owing to other people the balance of the dominion government debt. What is that?

Hon. Mr. LAWSON: Subtract that from $3,200,000,000.

Mr. TOWERS: At this point I would be willing to say $3,000,000,000 or $4,000,000,000; I do not think it matters.

By Mr. Tucker:

Q. I wanted to take arbitrary figures, but you said you wanted facts. Now, let us have them, because it has either got to be one thing or the other. I am not going to be hung up at one time because I am stating facts and the next time because I am taking arbitrary figures.—A. What I referred to was the factual basis for the discussion, rather than exact figures. Suppose we take $3,500,000,000.

Q. Then the difference would be $2,700,000,000. Now, then, I am assuming the dominion government over a period of years issues $3,500,000,000 of new money.—A. Yes.

Q. And pays off that debt. There would be an increase in deposits of— —A. $2,700,000,000.

Q. $2,700,000,000. That is an increase in deposits, and that would make the deposits $5,200,000,000?—A. Yes.

Q. There would be an increase in bank cash or reserves of $3,500,000,000? —A. Yes.

Q. All right. Now, then, they must have by our hypothesis in respect of that $3,500,000,000, dollar for dollar against the increase in the deposits. In other words if they have the increase, they could loan out $800,000,000 and still have dollar for dollar?—A. No.

Q. Well, the deposits have only gone up $2,700,000,000, and they have got an increase in bank cash of $3,500,000,000; you cannot get away from that; that is all there is to it.—A. Just half a second. We were discussing 100 per cent cash reserves for all their deposits.

Q. I said in the beginning in respect of this new series money that they had issued, they could only loan against it dollar for dollar.—A. But they could not loan anything against additional cash they received because you set out there there must be 100 per cent cash reserve in respect to the additional deposits.

Q. I said they could only use half the actual money that is issued; they could only use half of that particular money which they are issuing that way. That is what I mean. I realize to simply say you would upset the whole banking system would introduce other elements that could not possibly be gone into in this committee; but I am assuming that for every dollar of this money that is used to pay debts is a special type of money which is legal tender for all purposes except— —A. Against the increased deposits the banks must have dollar for dollar in cash.

Q. Let me complete that statement. All the money issued in that way would be legal tender for all purposes except that the banks could not use it to increase the reserves 20 to 1 as they can to-day, but in respect of that particular series, if they had it in their cash reserves, they could only make a loan to the extent of dollar for dollar against it.—A. It is not 100 per cent cash reserve.

Q. I am taking the suggestion that I actually made to you at the beginning of my remarks this morning; that is what I am taking, and to actually get to the technically complete 100 per cent reserve would introduce other considerations. I am taking the thing that I am suggesting to you.—A. It was your suggestion made in the House of Commons on February 16 that there should be 100 per cent cash reserves—

Q. To work towards that— —A. It said we should get there in the end. Unless we can come to some agreement on the effective 100 per cent ratio reserve, there will be the same difficulty on the facts, 60, 50 or 40.

Q. Do you suggest that if the banks had done what I suggest here they could make loans for a further $800,000,000?—A. They could not increase their loans and investments beyond what they are now.

Q. They have on hand the increase in cash reserves on the basis which I have suggested $3,500,000,000; obligations to depositors have gone up only $2,700,000,000.—A. The total deposits are $5,200,000,000; their cash requirements are $2,700,000,000 against the new deposits. They have about $800,000,000—

Q. They have about $3,500,000,000 in cash; on the old deposits of $2,500,000,000, their cash requirements would be just as they are required now.—A. Yes.

Q. Ten per cent. Therefore they require $2,950,000,000, and actually they have $3,500,000,000.—A. Yes. Assuming that the 100 per cent applied only to these new deposits there would be expansion powers arising on the assumption of the cash, which would mean that in effect the cash reserves which they would have to maintain would be—it would vary to the amount of the deposits, but at this particular stage of 50 per cent or less—

Q. Yes.—A. So we are getting into quite a different field, we are not on the 100 per cent basis.

Q. All right; that would be quite possible, and the banks could still have the chance of making loans to the extent of the difference that you have just mentioned, it would be a difference of $800,000,000; that is correct?—A. Well, I have not figured out what the expansion powers are in that.

Q. Now, if at the same time they had the rediscount rights they could take in any of their securities which they have the right to do, and if they are reasonable securities they can get dollar for dollar against them, and why could not the banks carry on their financing business exactly as they did at the time of the Finance Act?—A. Well, I should remind you, of course, that we have moved away completely from the—

Q. I will suggest the way in which we could get on with the 100 per cent system if you want to get on that basis.—A. It would be very satisfactory to close up the 100 per cent discussion.

[Mr. Graham Ford Towers.]

Q. In order to get on the 100 per cent system, as I understand it, all that would be necessary for the government to do would be to purchase from the banks individually the other securities to give them the 100 per cent reserve. That is correct, is it not?—A. Yes.

Q. That is possible?—A. And loans, perhaps.

Q. The only difference is that the government would get the interest from these securities instead of the banks?—A. Yes, and you would then come to the point where the banks had, shall we say, $5,000,000,000 of deposits and $5,000,000,000 in cash, and where their loans and investments and earning assets were represented, as I said in this memorandum, by the amount of their capital of $279,000,000.

Q. Just the same as they were— —A. In these circumstances, of course, if that is what the government did do, you would find the banks practically speaking with no earnings. They would have, practically speaking, no power to finance agriculture or industry beyond the $279,000,000.

Q. I will come to that. I do not agree with that.

The CHAIRMAN: Let him finish.

By Mr. Tucker:

Q. I suggest to you—

The CHAIRMAN: Let him finish.

By Mr. Tucker:

Q. I am asking the question.—A. They then have $5,000,000,000 deposits—

Hon. Mr. LAWSON: You must take the answer whether you like it or not.

Mr. TOWERS: $5,000,000,000 in cash and practically no earning assets. Their earning assets would be restricted to the $279,000,000 of capital and reserves. Now, that necessarily means (*a*) they cannot possibly pay depositors any interest; (*b*) in order to pay the expenses of operation they must get almost all those expenses of operation from their depositors in service charges, because their earnings on the basis of $200,000,000 odd invested in earning assets would be negligible. I do not say for a moment that that cannot be done, but all I am supposed to point out are the results.

By Mr. Tucker:

Q. All right; now, I want to deal with that. In other words, the situation is this: the banks then would be what they are deemed to be by the people, to-day, the custodians of their money. In other words, when a person has money on deposit, the bank will be assumed to have the ability really to pay that deposit. That is correct, is it not?—A. It has now.

Q. No; to-day the bank owes money which it cannot pay.—A. Not at all. The banks can pay.

Q. They can pay if the government comes to their rescue in the event of a crisis.—A. No. They can pay if it is possible for them to realize on their assets.

Q. Yes, but they cannot pay in legal tender cash without the government intervening and lifting the gold requirement.—A. We have gone over that before.

Q. Yes; all right. I do not want to go into it.—A. And we have said that it assumes a situation such as has never been seen on sea or land.

Q. As a matter of fact, that was not the point at all. The point was that the reason the situation such as has never been seen on sea or land, of the people wanting their money, has never arisen is because they know the government stands behind it.—A. We must remember, of course, that they not only

wanted their money but they wanted their money in only one form, legal tender cash. They did not want government bonds or any other of the assets that the banks possessed.

Q. Is it not true that the thing which prevented the people of United States in 1933 from demanding legal tender cash from the banks was the fact that the president said, "We will issue enough cash against the assets of the banks that if necessary they can pay every cent to their depositors"? Then the depositors did not want their money any more. Is that not true?—A. When people get into the frame of mind where they only want cash and want no other assets, you do come to a situation where practically the whole shop is closed up right across the country.

Q. Yes.—A. All business, public and private. That fantastic—not fantastic but desperate fear which causes the people to do these things, can only be satisfied in the form of legal tender cash.

Q. The thing that saved the banking system in the United States was the fact that the government stood behind the banking system to provide the necessary cash for the depositors.—A. The thing that saved the banking system as against that insane fear was what you mentioned. The thing that enabled the banking system to continue was that they had assets that would respond to those liabilities. If they had not, they had to close up.

Q. It was the willingness of the government to monetize those assets on a dollar for dollar basis, if necessary—

Mr. HOWARD: Because they were mortgage assets.

Mr. TUCKER: Yes; but it is the willingness of the government, if necessary, to do this which underlies the whole thing.

Mr. HOWARD: Because they were mortgage assets.

Hon. Mr. LAWSON: Frozen.

Mr. TUCKER: That is not so.

Mr. HOWARD: Yes, it is.

Mr. TUCKER: All right. The point I am trying to make is not that the banking system is not solvent, but that underlying the whole thing there is the fact that the government, if necessary, will come to the backing of these deposits with a dollar for every dollar, if necessary.

Mr. TOWERS: As I said before, the fact that the government is there to promote peace and good order underlies the functioning of all business in this country.

Mr. TUCKER: Yes. The banks know they can rely on that; and the people that that is the case, that they can rely on getting dollar for dollar, if necessary. The banks then are able to loan to the extent of $10 for every dollar in reserve.

Mr. TOWERS: That is right. In effect, what the depositors say now or what their government says for them is this. They say—the depositors—that they want the service of carrying these accounts. They also would like, to the extent that they can, to get some interest on their money. The depositors could not get interest on their money and, in fact, would have to pay the bank a substantial service charge for carrying their accounts if you expect the banks to maintain 100 per cent in cash.

By Mr. Tucker:

Q. That is the assumption that the banks make?—A. The depositors say, or I will assume that they say, "We prefer that the banks should be able to have earning assets against the major portion of these deposits so that they can cover operating charges and pay some interest."

Q. Yes?—A. Now there is absolutely nothing to prevent the parliament of the dominion of Canada from saying, "The banks must have 100 cents in

legal tender for each one dollar of their deposits." But when the parliament of Canada says that, we assume they say so in the knowledge that that means that no more interest can be paid on deposits and that the depositors must pay a service charge to cover operations.

Q. That is the point.

Hon. Mr. LAWSON: Or the banks would all go out of business.

Mr. TUCKER: All right. Just a minute. After all, I think Mr. Towers can handle the thing without assistance from the members of the committee.

Hon. Mr. LAWSON: He is very, very efficient.

Mr. TUCKER: All right. It would help me if there were not so many remarks.

Mr. WOODSWORTH: Mr. Tucker, after all, the rest of us are trying to follow this; and I think we are right in saying that Mr. Towers should have an opportunity of finishing his statement.

Mr. TUCKER: I am not objecting to his finishing his statement. But I do object to three or four people helping finish it. As a matter of fact, I can help him finish it as well as other members of the committee.

Hon. Mr. LAWSON: Maybe he thought it was a hindrance rather than a help.

The CHAIRMAN: Order.

Mr. TUCKER: As a matter of fact, I should like to finish this up, if I may.

By Mr. Tucker:

Q. There is an assumption put out by the bankers' association of this country, to which you have just given expression, that if the banks had to have a dollar for every dollar that they owe their depositors, they could not loan money as they are doing to-day. Now I suggest to you that that is not correct, and I shall give you my reason. The credit unions—to take one example—or the commercial mortgage companies take in money at 2 and $2\frac{1}{2}$ per cent and loan it out at 6 and 7 per cent. They do not charge their depositors a service charge for looking after their money. To-day the banks have to pay $2\frac{1}{2}$ per cent on their deposits to their depositors.—A. One and one-half per cent.

Q. One and one-half per cent?—A. Yes.

Q. All right. Suppose you get the situation which we have just outlined, $500,000,000 on deposit and $500,000,000 that they have got in cash.—A. Yes.

Q. And somebody—we will say the C.P.R.—comes along and says, "We want to borrow $1,000,000." The bank says, "We have got to have dollar for dollar. We will have to go and discount an asset that we have for $1,000,000 in order to get the money."—A. But they have not got any assets other than cash.

Q. Oh, yes. Just a minute. They have their original capital. We are assuming that we are starting out with this situation. After all, I want you to be logical.

The CHAIRMAN: Do you want the governor to give you a reply now?

Mr. TUCKER: Well, he is going along. We are going along very well. They have $245,000,000 of capital and they have $500,000,000 of deposits and $500,000,000 in cash. The C.P.R. comes along to borrow some money.

Mr. TOWERS: Well—

By Mr. Tucker:

Q. That is all right, is it not?—A. No.

Q. What is wrong with it?—A. There is something badly wrong. What have they got on the asset side of their balance sheet against capital? Have they already loaned that out?

Q. They have that in cash; they have $500,000,000 in cash against deposits of $500,000,000; and they have the money they put in themselves of $245,000,000.—A. If that was put in in cash, they must have $745,000,000 in cash.

Q. All right; they have that. Suppose the C.P.R. come along and they say, "We want to borrow $1,000,000." All right, they have the $1,000,000 to loan. They loan them the $1,000,000. They enter up a deposit of $1,000,000.—A. Yes.

Q. The C.P.R., presumably, is paying them, say, 6 per cent on that loan. The deposits then go up by $1,000,000. That is correct, is it not?—A. Yes.

Q. The C.P.R. is paying 6 per cent, and they are paying their depositors, just as they are to-day, 1½ per cent on their deposits. Where is the difference?—A. But I did say that they could make loans and investments to the extent of their capital and reserve.

Q. All right. Then we will assume that they make loans and investments to the extent of $245,000,000.—A. Yes.

Q. On which, just as to-day, they are getting, 5, 6 and 7 per cent and paying the depositors 1½ per cent. That is correct, is it not?—A. They are getting 5 and 6 per cent in connection with such loans as they have; but, as you know, those are rather moderate.

Q. All right; that is on the capital. Now we will assume that they want to borrow some more money; perhaps they want to loan some more money.—A. Yes?

Q. Somebody comes to them. Suppose the C.P.R. comes and says, "We want to borrow $10,000,000" and they have already loaned out all their capital?—A. Yes?

Q. They must then go to the Bank of Canada. We will say that under this system the Bank of Canada provides that money, and does so, we will say, at a lower rate of interest, in order to stimulate enterprise in this country, loaning it at ½ of 1 per cent to the banks, we will say. The bank can take that $10,000,000 and loan it at 5 or 6 per cent, the same as they can to-day, and they will pay those depositors 1½ per cent just the same as to-day. What is there to prevent, on that basis, the legitimate expansion of credit that you want, on the situation that I have outlined here?—A. The system that you propose amounts to this; and if you will forgive me I will refer to the figures again: Shall we say that the banks would have two and a half billions in deposits and two and a half billions in cash? They would have in loans and investments the $245,000,000 of their capital. You say, recognizing of course that that is absolutely inadequate to finance the general requirements, that they would take that $245,000,000 of loans and investments and rediscount them or sell them to the central bank and then be able to make a further $245,000,000?

Q. Yes.—A. It is something of that kind that I meant when I said you would have to set up an entirely new system for loans; because it would mean that the central bank was, in effect, doing all the loaning business which the country required to have done. Then you assume indirectly that the banks, so to speak, act as agents of the central bank—

Q. They do that to-day.—A.—in making their loans.

Q. They do that to-day.—A. Which they do not do to-day, no.

Q. You have control over it. The only thing is you do not control them absolutely; you to-day give them a dollar on which they can loan ten, and you absolutely control the expansion of their loans to that extent. The only difference would be, I assume, that the time will come when they are going to have to rediscount under the terms of the Bank of Canada Act?—A. I would say for moderate amounts and for temporary purposes; not as a steady diet.

Q. Unless you supply them with more and more in cash?—A. Yes.

Q. Yes.—A. Which we would do if the requirements were such as would make it necessary.

Q. Yes; so that the government could supply more and more new cash on a dollar for dollar basis?—A. Yes.

[Mr. Graham Ford Towers.]

Q. As it paid its expenses and so on?—A. The banking system in effect ceases to be in the loaning business except possibly as an agent executing certain loans on behalf of the central institution, which then becomes the loaning institution of the country. It still remains true that the banks would have, in the first instance, no earning assets other than what they had, the $245,000,000 invested.

Q. The same as other people.—A. And the depositors would therefore receive no interest and would have to pay a service charge. The fresh element that you introduced there is that the banks could sell or rediscount those loans and investments with the central bank and proceed to make fresh ones; if there was a differential between the rate charged by the central bank and the rate earned on their new assets, there would be a certain margin of profit in there as well. What the earnings would be would depend on that margin and on the volume. But I would certainly say that it would be a peculiar system and that, under those circumstances, you would have a central bank rediscounting practically the total of the loans and investments of the banks. It would be far better, in that case, to have a nationalized banking system; because that is, in effect, what it would be.

Q. That is what you have to-day, except that the banks have a much better position than they would have under this system. In other words, the banks under this system could expand to the extent that you were willing to allow them to expand, could they not?—A. To the extent that we were willing to buy or rediscount their loans and investments, yes.

Q. Yes; you would have absolute control. That is true?—A. Yes.

Q. In respect to the extent of their capital?—A. That is right.

Q. That is all they could handle?—A. That is right.

Q. There would be no limit to the expansion any more than there is any limit to-day, would there?—A. No. But it would be completely in the hands of the government and the central bank. The banks would be a loan agency, really.

Q. They would supply the means whereby they could make their loans as they do to-day?—A. No, not as they do to-day. If you are doing that on a large scale, permanently, then I would say you are in the business and you might as well say so.

Q. When you stand ready to go to the rescue of the banks to meet their depositors' demands as against the assets of the banks, to the extent of dollar for dollar, if necessary, are you not actually letting the bank handle your credit just the same?—A. We stand ready in the case of an extreme emergency; and only then if the banks have assets which will respond to those liabilities.

Q. Yes, you only give them the assets on the dollar for dollar basis if they have good propositions?—A. Presumably, yes.

Q. So what is the difference in essence?—A. There is a major difference in essence, I would say, because in the situation you mention you have the permanent responsibility for the activity of the banks in connection with making loans or investments, because the whole thing practically is in the central bank portfolio. I have not, as you will remember, said that there is anything impossible in doing this; I have only tried to trace the implications.

Q. You said that they could not pay anything to the depositors.—A. They could not on the basis that was first mentioned. If, on the other hand, they are acting as agents for the central bank in handling a large number of loans and investments, and if the central bank allows them a margin as between what the central bank charges and what they get from their borrowers, there is that additional earning.

Q. In other words, you could give them a margin which they absolutely need to handle the banking business of the country?—A. To cover their operating expenses.

Q. Then assuming it is possible for them to pay a reasonable amount of the depositors you would have the same control over it or more than you have to-day, would you not? Then has it not this advantage, and this is one thing which I think is most important; that you could then prevent the booms and depressions that have been a feature of our present banking system for the last 100 years to a great extent? Is this not the case; that when banks have expanded their loans and investments to the extent of ten to one anything that affects the price level within the country endangers the value of the securities which the banks hold, affects their liquid position, makes them begin to call loans, and that still further depresses the price level and they have got to call even more loans in order to keep in a liquid position, and as they call more loans they cancel our purchasing power and it is like a snowball running downhill, the faster they call loans the faster they have to call them? Is that not one of the main causes of the rolling up of depressions?—A. You have not changed that situation in any way by the new proposal. There is a certain shift in the place where responsibility lies. For example, on the side of expansion, provided the central bank will keep on re-discounting or buying their assets, there is no limit to the loan and investment expansion which could take place. If it is a re-discount and the banks are responsible for the repayment of the amount involved then it still remains the banks' responsibility to see that those loans and investments are good, or to try to collect them if they think they are bad. Therefore, from that point of view, the possible contraction is just the same as it is now, the possible expansion is also unchanged, and all you will find that has happened is that the responsibility which now rests on the central bank has changed the responsibility is now one in respect to the total of loans and investments outstanding without a responsibility for just how much is loans, just how much is investments or what the other assets are. Under the system you are proposing I think the central bank would be responsible both quantitatively and qualitatively; in other words, you should have in that case a completely nationalized banking system.

Q. Well, that is not necessary.—A. My opinion is that it would be.

Q. All that the banks to-day have risked in the thing is their original capital invested plus their double liability, and all they would have invested under the system I propose is the same amount; if you trust them in one case why would you not trust them in the other?—A. I think you are suggesting that there would be a major difference in operation; in other words, you are suggesting that it is a better way to prevent booms and depressions.

Q. No, what I am suggesting is this, that you stand ready to-day if necessary actually to redeem every dollar of the banks' assets in cash. That is what it means. You would not be doing any more under the system I suggest. Why, then, would you have to have so much more control?—A. Why would there be any difference in the results?

Q. There would be this difference: The banks to-day, as you know, are always worried about their actual cash liquid position.—A. No.

Q. They are not?—A. No. I think you are working there on the experience of 1929 and 1934. That cannot be repeated in this way that it happened at that time. On that previous occasion, the banks arrived at the year 1929 with rather heavy borrowings under the Finance Act.

By Mr. Howard:

Q. And heavy loans?—A. And heavy loans. When the depression started, when prices started to fall, there was naturally a collection of a substantial volume of those loans. I suggest we should not go at this moment into exactly how much of that reduction of loans was purely in the interests of the borrowers and for their own good, and how much was undue pressure. The banks were rather keen to repay their advances under the Finance Act. We were in

[Mr. Graham Ford Towers.]

fact off the gold standard. There was no way in which cash could be increased other than by borrowing under the Finance Act; in fact, the banks wanted to reduce those borrowings.

By Mr. Tucker:

Q. Because they were paying $2\frac{1}{2}$ per cent interest?—A. I do not think it was the interest rate, but they wanted to reduce them, realizing that those borrowings should be temporary. Now, that meant a reduction in the volume of their cash reserves and it meant a certain pressure in regard to contracting and pulling in. That situation cannot arise again. Incidentally, I will back-track for a minute and say that the Finance Act transaction of $35,000,000 in November, 1932, was designed to relieve that pressure, and it did. It accomplished a very great deal, much more than people realized, I think.

Q. What accomplished that?—A. The Finance Act transaction of November, 1932, when Mr. Bennett asked the banks to borrow $35,000,000. They said, "We do not particularly want to, but we will do it since you ask that it be done." That was what you might call a central bank action with the only machinery which was available at that time.

Q. It was opposed by the banks, was it not?—A. Some felt they did not need it, but they did it on the request of the prime minister of the day. Such a situation as that cannot arise again because if there is a contraction on the part of the banks due to fear in regard to their cash position all the central bank has to do is to interject another $10,000,000 or $50,000,000 of cash into that situation and relieve that fear. We have the machinery for doing that which we did not have prior to 1935.

Q. You suggest, Mr. Towers, do you, that when the banks owe $10 for every $1, as they do to-day, they have got away from worrying all the time about keeping the loans liquid and keeping in a liquid position.—A. I would say this, that they wish to keep in a reasonably liquid position, they wish to have 10 per cent cash reserves and certain other assets, short-term government bonds or whatever it may be, which will be readily available in case of need. I do say this, that in circumstances such as we have been talking about, if their worry were translated into a desire for 15 per cent cash instead of 10 per cent, we would soon take steps to see that 15 per cent was there.

Q. In other words, you stand behind them, as I have said.—A. We stand to see that the banking system of the country operates properly so far as it lies in our power so to do. Mind you, Mr. Tucker, when I say we would add to their cash, that does not necessarily mean discounting anything for them.

Q. No, I understand.—A. We can buy bonds from Tom, Dick and Harry and add to their cash in that way.

Q. They are under constant supervision by the Department of Finance?—A. Yes.

Q. If there is a tendency for certain types of their securities to freeze up is there not an expectation on the part of the Department of Finance that they will actually at all times preserve a certain definite proportion of liquidity in regard to their position which means the collection of loans that they can collect?—A. No, I do not think so; at least, certainly not necessarily. If a bank had greatly over-expanded its loans, in the opinion of its own officers or of someone who inspected them, then the inspector might very well say, "Look, your loans used to be $100,000,000 and your cash and securities were $100,000,000; you had about 50 per cent of one and 50 per cent of the other; now you have let your cash and securities run down to $25,000,000 and your loans have run up to $175,000,000. Not only is that a tremendous expansion but it is too much in certain places, it is not good looking stuff, it looks too speculative, it looks poor, you have overdone it, you ought to pull in." In that case you do get a pulling in and presumably the bank will pull in its most specula-

tive loans. That is a most unfortunate situation, and it would be far better if before that situation arrived someone had said, "We think you are going a little too far; I do not suggest pulling back, but don't go further, because you will be getting into an unsound position." Once you have allowed the banking structure to get into a tremendously over-expanded speculative position it is pretty hard to avoid unfortunate repercussions. But naturally the idea would be, do not let it get there.

Q. By your giving them the right to use your money at 10 to 1 are they not more likely to go too far if there is a chance to make profit, and are you not going to have to check them even more than if they could only use it on the basis of a dollar for dollar?

By Mr. Taylor:

Q. I am constantly hearing the statement that we are loaning 10 to 1 and that we are working on a 10 per cent basis. If we are working on a 10 per cent basis we can only loan 9 to 1 because 10 per cent of the cash money must be reserved against the cash deposited. Am I right?—A. That is true.

Mr. Taylor: Thank you.

By Mr. Tucker:

Q. We will assume that that correction is right. But we are trying to get at principles and not exact figures.—A. Yes. I should say that the maintenance of a reasonable degree of stability depends on the actions of the executives of the banks, depends on the views in regard to those actions which may be expressed by the inspector-general of banks, and depends finally on the expansion power which they have as the result of the amount of cash they have. Of course, we control that amount of cash. If we saw to-day that the banks were becoming too exuberant in the making of loans I assume that we would do two things: We would say to the banks that we thought they were going too far and we would probably cut down their cash so that they would not have difficulty in going any further.

Q. After all, you are giving evidence and you are stating on your responsibility as governor that we are no longer faced with the danger of the banks having to unduly call loans to preserve their liquid cash position any further.—A. That there is no necessity for that because the machinery which we have enables us to increase the cash in those circumstances.

Q. On the basis of Mr. Taylor's interruption, if they are permitted to make loans of $10 for every $1 they have, is it not true that they do loan on a basis of 10 to 1?—A. With the distinction which he made in regard to the exact figure, yes.

Q. As a matter of fact, if they have a dollar on hand they can loan out $10?

Mr. Taylor: No.

Mr. Towers: No, because they have to have, shall we say, $100,000,000 of deposits which call for $10,000,000 in cash and therefore the other assets, loans and investments, can only be $90,000,000.

By Mr. Tucker:

Q. If you actually had $10,000,000, you could loan out $100,000,000?—A. No, because originally $10,000,000 will be represented by a deposit, no doubt.

Q. As a matter of fact, they are loaning out to-day, and you restrict them to loans and investments, to the extent of $10 for every $1 they have on hand?—A. No, not quite. It is perfectly true that it is 9—9 for 1 on that basis. A 10 per cent cash reserve implies by simple arithmetic a 9 for 1 expansion.

Q. At the time of the British MacMillan report it was 11 to 1.—A. It varies from 9 to 1 to 11 to 1.

Q. I thought that report referred to 11 per cent cash reserve.—A. No; it was 9 per cent cash reserve.

[Mr. Graham Ford Towers.]

By Hon. Mr. Stevens:

Q. The 10 per cent cash reserve is not an arbitrary figure?—A. No.

By Mr. Tucker:

Q. That is what I am getting at.—A. It might be 8 to 1 at times in the case of some banks; it might be 9; it might be 10.

By Mr. Taylor:

Q. Has that not been a constantly decreasing percentage due to the increased use of the cheque?—A. You mean that the ratio of cash reserves—

Q. Cash and till money on deposit?—A. —of cash reserves, that is both till and money deposits. No, I would say not. But in the years 1931, 1932 and 1933, it tended to be 8½ per cent to 9 per cent, whereas 10 per cent is the figure now.

Q. I remember clearly in the nineties—that is a good memory—it was about 22 to 23 per cent.—A. Ah, yes, it was higher in those days.

By Mr. Tucker:

Q. Then, Mr. Towers, to complete the statement, you would say that the only advantage in this system would be, first of all a tremendous saving of interest that the government pays?—A. I would say that there is a tremendous saving in interest which the government pays, but that the government has extracted that from the depositors.

Q. No; I am assuming that the depositor still gets the 1½ per cent.—A. I do not see how they could.

Q. Well, I am suggesting to you that they could get the money they need from the central bank for half a per cent?—A. For what?

Q. Yes, half a per cent, and I do not see any reason why it should not be that low to stimulate business, and they should pay 1½ per cent to depositors. If they did that they would not be able perhaps to build the large buildings that they build to-day and pay the salaries that they pay to-day and make loans to their subsidary companies and all that sort of thing; but they should be able to finance on a margin of 4 and 5 per cent and therefore they could pay their depositors. The government would get half a per cent, on the financing, and it would not be paying the interest on the public debt. There would be no harm done because you would have even more control over the system than you have to-day. That is what I suggest to you, and I suggest that your memorandum did not deal with the advantages in the suggestion. When I was speaking in the house of commons I was not setting out a meticulous bookkeeping proposition, I was laying down a suggested line of action.—A. Of course, I do not think, so far as I recall your remarks, that you did suggest that the loaning activities should then be entirely dealt with by the central bank.

Q. Naturally I realize we would have to go on using the banking system. If your memorandum did not deal with that subject, and speaking of the suggestion that some other member may ask some questions along that line, I would ask you to deal with the suggestion I have now made.—A. Yes.

The CHAIRMAN: Mr. Mayhew has the floor.

Mr. MAYHEW: I have a suggestion to offer if the committee will permit me. Apparently, we are discussing banking systems and there are at least two and probably three different systems that have been mentioned here to-day. I would suggest that we reverse the order probably at our next meeting, and ask those who are propounding the various systems to answer the questions rather than have Mr. Towers answer them. In that way we would probably get the information we want. I am quite serious about that, because I think we should probably look at any of these systems to get what good there is in them. I am afraid that I would not be able to ask questions on any one of them, but I would

probably get the information I want by some other members asking questions. With the services of our good friend Mr. Towers we might be able properly to understand the systems propounded by Mr. McGeer and Mr. Tucker and anybody else.

The CHAIRMAN: That is an excellent suggestion.

By Mr. Tucker:

Q. I should like to ask you one other thing before I resume my seat. The suggestion has been made that this country needs to have new credit from abroad. I suggested, with the financial set-up we have to-day under our Bank of Canada Act, that new capital should not be brought from abroad to develop our natural resources, but that some means should be found to use our present opportunities for expansion of credit rather than selling our natural resources into a sort of bondage to other countries.—A. As a matter of fact, in the last five years we have repatriated foreign debt on an enormous scale.

Q. Yes. I dealt with that situation in the first speech I made in the house of commons this year. We hear the cry that we want foreign capital to come in to help us develop our mining fields in the north, this and that and the other thing. To-day we find our prospectors in this situation: they are looking around for foreign capital to come in to develop the things they find. They can only get that capital at the very exorbitant price of turning over substantially large portions of the mining areas to the owners of the capital. I suggested in the House of Commons some sort of a system—and it applies also to what Mr. Donnelly raised the other day, where the banking system to-day has got into the attitude of mind that it wants a rate of interest that municipalities and provinces would ordinarily pay, and yet they won't loan that unless they get a government guarantee. Although they are handling our credit on all big transactions they can absolutely strangle everything in the way of development if they wish to do so. I do not want to take up any more time than I have taken up, but I made a suggestion there in regard to using our credit and seeing to it that instead of having the country's natural resources turned over to foreign control, something be done in the way of setting up some control from the standpoint of providing credit to big enterprises. I wish you would glance over my speech and make a short memorandum upon what you think of my proposal.—A. I think I can answer it right here, but perhaps not to the extent that I could do it in a memorandum. My answer is this: (*a*) we are cutting down our indebtedness to people in other countries very substantially, and have been doing it for the last few years; (*b*) I understand mining enterprises can finance themselves pretty satisfactorily in Canada, and have been doing it during the last few years. I believe that there are certain American investors in our gold stocks, and we cannot stop them having those.

Q. Do you think that we can go on without American capital, and get lots of it here in Canada?—A. I think that they have been able to get lots of it here in Canada. I would say this: if they cannot, it must mean, of course, they cannot sell the Canadian people the idea of making these investments.

Q. No; the banks are not providing the long-term loans.—A. The Canadian people have the savings.

Q. Suppose the Canadian people have not got the savings?—A. They have; they have got $2,500,000,000 in the banks right now.

Q. What I wish to deal with is this point: suppose the Canadian people, through their nervousness about the situation, will not loan their savings, the banks themselves cannot enter the picture because they are not supposed to make long-term investments like that. Is not there something we can do in the way of providing for that financing of the developing of our own resources instead of having to go abroad for the capital?—A. In fact, I think that we are doing it from our own resources right now.

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Q. Are you satisfied with the situation?—A. That is an awfully diffcult thing to answer, because one gets put in the position if one says that certain things are so-and-so, of someone else saying: are you satisfied with the prosperity of this country; do you believe everyone is employed? And so forth and so forth. Of course, I do not; but that does not prevent me from thinking that certain propositions which are being made would not, in fact, result in improvement. In any event, the proposition is one which involves a change in the Bank Act and the banking system, so that the banks will be enabled to finance in equity form presumably, because that is where money is needed, and will be able to finance new developments, mining or whatever they may be. I am thinking of functions which hitherto have been considered ones which should be dealt with by individual investors; functions which the investor has performed on an enormous scale. Your suggestion is, shall that function be performed by the banks, particularly when the individual investor is frightened to take the risk? That is an extremely broad subject; it relates to the Bank Act and to the banking system and I just question whether I should try and deal with it at this stage.

Q. There is just one other question—

The CHAIRMAN: Mr. Tucker, Mr. Quelch has the floor.

By Mr. Tucker:

Q. In the past the mortgage companies have been making vast amounts of loans in Canada from moneys obtained from abroad, and the interest goes out of Canada. I suggest that there should be some form devised to prevent this great amount of interest money going out of the country. I suggest there should be a separate system—if you do not want to tie it in with the banking system we have to-day—to provide that capital within the country for mortgage loans and everything else, instead of having it going abroad. In other words, we can supply that capital in Canada, can we not?—A. And in fact, in the last few years we have not only been supplying such capital as has been required for development going on within the country, but we have gone very far beyond that; we have supplied all that has been required during these years and we have brought back five or six hundred million dollars which had previously been borrowed from the foreigner.

Q. What I am getting at is this: in the line of further devolpment there will be a demand for more money and so on.—A. Yes.

Q. We should provide that capital and have the interest stay in the country by virtue of a change in the Bank Act by setting up a loan bank, a bank to supply capital on long terms, or something of that nature.

By Mr. Quelch:

Q. I understand that Mr. Towers is going to prepare a statement referring to the 100 per cent system.—A. And expanding my reply at the third meeting to include the further suggestion that the financing of loans and banking investments should, under the 100 per cent system, be managed by discounting or selling obligations to the central bank.

Q. There are a few more points I should like to make on that. If you would include one or two other points in your reply you would show that the powers which you can exercise in increasing or decreasing the currency, would exercise effective control over the chartered banks at the present time.—A. That is a quantitive control, yes.

Q. You are probably familiar with the statement that the Minister of Finance made in the house on March 8, 1938. Perhaps I had better read it. It is in reply to a suggestion of the member from Rosthern in regard to the issue of certain money. Mr. Dunning states:—

> An increase of, say $350,000,000 in chartered bank holdings of Bank of Canada notes would increase their cash reserves from the present figure of about $250,000,000 to $600,000,000, and their cash ratio from about

> 10 per cent to roughly 24 per cent. . . . If the banks use their increased cash in the normal way, as a basis for the extension of roughly ten times as much in loans to the public, or for the acquisition of ten times as much in investments, bank deposits would expand by approximately an equal amount until the cash ratio was brought down again to approximately 10 per cent. This would mean an increase in bank deposits from the present level of about $2,387,000,000 to something like $6,000,000,000, or more than 2·6 times the level of December 31, 1929. Am I merely old fashioned or orthodox when I say that this would mean a colossal measure of inflation?

The suggestion was that a certain amount of money might be needed in circulation—I am not going to say whether it is too much or not enough.

The only reason that the minister gave against that was that if that money was issued, then the chartered banks might be expanding their loans up to ten times the amount of cash, which would bring about inflation. It seems to me very strange that, on the one hand, we say that we have effective control of the issue of currency and credit on the part of the chartered banks; and then on the other hand the Minister of Finance gets up in the house and says we cannot issue a certain amount of money when that much money is needed in circulation, for fear of inflationary action on the part of the chartered banks. It seems to me that in itself gives the lie to the statement that we have effective control of the issue of currency and credit.—A. On the contrary; because if that money was issued, we would be responsible for the result.

Q. We could not prevent the banks— —A. The moral is that if the expansion on the part of the banks is not desirable, do not issue the money.

Q. Yes; but on the other hand if it is desirable to finance employment to the extent of $100,000,000—we consider $100,000,000 is the amount of money needed in circulation—the idea is that when that $100,000,000 is put into circulation the chartered banks may or may not—we do not know—expand their loans by $1,000,000,000 instead of $100,000,000. Is that not true?—A. Yes. The moral is, "Do not issue additional money unless you want bank expansion." If money is required for government financing, but cash expansion is not desirable, then borrow the money from the Canadian people. You may say, "Then, would it not be much better to issue new money and finance government expenditures in that way without interest charges?" We have, as you know, put down in memorandum form, our view that such government financing is not costless. It may be costless so far as the government is concerned, but expensive so far as the people are concerned.

Q. By increasing the price level?—A. By increasing the price level and various other disruptions and changes which may take place. Some one pays the shot. The government may evade it but the people get it; the people pay it; and as the government and the people are one, you will not be very far ahead.

Q. In order to get more money into circulation, you maintain that it would be necessary or desirable that we go into debt to that extent?—A. I beg your pardon?

Q. You would maintain that in order to get more money into circulation— —A. I do not suggest that that money should necessarily be obtained by borrowing.

Q. By taxation?—A. It might be by taxation. But what I am suggesting is that whatever you do there is a sacrifice; and government policy consists in deciding which is the best sacrifice to demand. Any thought that you can pull yourself up by your boot straps and put this great additional quantity of money into circulation without cost or sacrifice by the people is what I would

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object to. But naturally I do not express any opinion in regard to government policy; I only state that there is sacrifice involved, and the wisdom of government policy consists in choosing the best form of sacrifice.

Q. In addition to that, I notice in a recent issue of a letter of the Bank of Montreal a statement quoting Reginald McKenna in which he states that until you have full employment there is really no danger of inflation, and that the government could borrow money rather than increase taxation until you have full employment. Of course, we have not full employment in Canada to-day. It should be possible to issue more money without any danger of inflation?—A. I tried to deal with that in the memorandum I read at the last meeting. I do not think there is anything I could add to-day. In response to a question which Mr. Tucker raised at the last meeting, which I perhaps should have brought up before, I have a memorandum of reply here. Perhaps at this stage, with the committee's permission, it will be best to put it on the record. Would it?

The CHAIRMAN: Yes.

Mr. TUCKER: With the consent of the committee.

Mr. QUELCH: I wonder, before you do that, if you would—

Mr. TUCKER: He is not going to read it now.

Mr. QUELCH: There is one point I want to bring out regarding the 100 per cent system. Personally, I should like to see the whole banking system nationalized; but, on the other hand, there are many people who are opposed to that idea. Personally, I think that so long as we have directors on the chartered banks who are also directors of large industries, you have rather an undesirable situation. But in so far as the 100 per cent system is concerned, surely it would be possible to amend the Bank Act so as to control it so as to increase your cash reserve up to 100 per cent of your demand deposits, not deposits; just restrict that to demand deposits alone and then have a distinct split as between demand deposits and savings deposits.

Mr. TOWERS: I know that that suggestion has been made in the United States. My own view is that it has no features which make it worth while. The distinction as between demand and savings is almost impossible to make. It is true that on the books of the banks you will see certain things in the savings category. Are those real savings or are they deposits of another kind which depositors have put into the savings department?

By Mr. Quelch:

Q. Exactly, but there would be nothing to stop that clear-cut definition being made. At the present time, I can write a cheque out on a savings account and draw it out, but the banks have the power to refuse to do that; they can demand that I give certain notice before I draw a cheque on a savings account, although they do not exercise that right.—A. No.

Q. But they have that power?—A. I do not think it could be exercised.

Q. If you drew a line between savings accounts and current accounts then you would need to have only 100 per cent cash reserves against the current accounts?—A. Yes. I know that proposal is being discussed. Frankly, I do not see anything in it so far as Canada is concerned. I think what has brought it to their minds in the United States is this: A desire for some formula which will imply greater control.

Q. It would give greater control, would it not?—A. Perhaps with their 15,000 banks and considering the great difficulties they have always experienced they are seeking a formula for control. My own belief is that a formula will never get you anywhere; that you cannot legislate good management.

Q. The only thing is that it would give us far greater control than we have at the present time. We would not have the Minister of Finance getting up in the house and saying that we cannot issue this money for fear the chartered

banks will expand their loans to that extent.—A. You still would have that situation. It is true that in the first jump you would be able to issue additional currency which would be frozen through the banks' need for increased cash reserves. At that stage all that you have done is to impose a form of tax or reduction of earnings. Once you had reached that point it would again become true that any substantial increase in currency would permit banking expansion based on—

Q. Savings accounts?—A. —based on the ratio between the average cash reserves and deposits.

Q. If you drew a line of distinction between savings accounts and current accounts in reality you would have 50 per cent cash reserves in savings accounts and 100 per cent in current accounts. If, for instance, you had deposited money in a savings account for a certain length of time, three months or six months, during that period that money would then belong to the bank and they could loan it out for that period of time.

The CHAIRMAN: Gentlemen, it is now 1 o'clock and we have lost our quorum.

Mr. TUCKER: Mr. Chairman, what about that memorandum which Mr. Towers prepared?

The CHAIRMAN: The governor's statement will go in the record.

MEMORANDUM SUBMITTED BY MR. TOWERS

Submitted in reply to the suggestion made by Mr. Tucker on April 21, 1939, that as long as there is unemployment in Canada it would be feasible to issue additional money in depressed areas without causing inflation or material harm to other sections of the country.

The question to which I shall attempt to reply is not how much assistance should be given to depressed areas—because that is a matter of government policy—but is whether assistance to such areas in the form of additional money, may be made without involving sacrifice by other sections of the country.

I shall assume that the state of depression which this particular suggestion is proposed to alleviate, is considered or hoped to be temporary—not a permanent feature which would justify the costly procedure of revamping the whole economy in order to make ourselves a more self-contained country. I believe Mr. Tucker indicated at last week's meeting that he was thinking of a temporary problem.

In order to clarify the discussion by relating it specifically to Canadian conditions, it may be assumed that a large payment is made to western wheat growers to restore their income to normal pre-depression levels.

The first results of such a policy would be an increase in western purchasing and consequently some degree of stimulus to industrial activity elsewhere in the country—although for reasons which will be mentioned later such an increase in activity would be less than proportionate to the amount of the payment to western wheat farmers and would be of a temporary nature.

If the increase in purchasing by western wheat farmers were confined to goods produced wholly in the domestic market and if the increase in domestic industrial activity were accompanied by a corresponding increase in demand for the products of western wheat farmers, then the basis would exist for a continuous exchange of goods and for a general improvement in economic conditions.

To suggest that actual developments would follow this pattern is to lose touch completely with the realities of the Canadian situation. It is an assumption applicable only to relatively self-contained economies such as Germany and the United States to which we have referred at previous meetings.

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By far the major problem in western Canada is wheat and as it is quite impossible that an increase in Canadian demand would absorb a large part of the decline in foreign demand for this product and almost equally improbable that the increase in western buying would be satisfied chiefly in the domestic market, such a payment to western wheat farmers as we have envisaged, would undoubtedly entail sacrifices for other sections of the country.

Increased purchases both by western farmers and resulting from the stimulus to domestic industrial activity, would increase the demand for imported goods—partly in the form of finished products and partly in the nature of raw materials for Canadian industries. Imports in general would tend to rise to about the same level as if Canadian wheat exports were of normal value and the income of wheat growers derived from foreign trade rather than to a large extent from an internal payment.

In the absence of the normal receipts from foreigners in payment for our wheat, such an increase in imports would bring pressure on the balance of payments and depreciate the Canadian dollar in relation to other currencies.

The effects of currency depreciation have been covered in some detail by an earlier memorandum which has been placed on the record. I believe that it would involve an undue amount of repetition for me to go over that ground again and that it would be enough at this time to mention the major results of such a policy—which are the increased cost of all payments abroad and a general rise in the level of internal prices and later of costs. Bearing these developments in mind, I believe that the existence of a sacrifice by important sections of the country becomes clear.

In concluding, I would like to emphasize again that what I have said has not been related to the amount of assistance which it is desirable to give to depressed areas in our economy because that is a matter of government policy and is entirely outside my province. I have simply attempted to show that the suggestion made by Mr. Tucker would not be, under existing Canadian conditions, a method which would not involve sacrifices on the part of other sections of the country.

The CHAIRMAN: The committee will adjourn to meet again at the call of the chair.

(At 1.05 p.m. the committee adjourned to meet again at the call of the chair.)

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 8

FRIDAY, APRIL 28, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

FRIDAY, April 28, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Deachman, Donnelly, Dubuc, Fontaine, Hill, Jaques, Kirk, Landeryou, Macdonald *(Brantford City)*, Manion, Moore, Ross *(Middlesex East)*, Ross *(St. Paul's)*, Taylor (*Nanaimo*), Stevens, Tucker, Vien, Ward, Woodsworth.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

After considering a private bill to incorporate Universal Eucozone Limited, the Committee resumed consideration of the Report of the Bank of Canada.

Mr. Towers read into the record several statements in answer to questions asked by members at the previous sitting, and was further examined.

At 1.05 p.m., the Committee adjourned to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

Room 277.

April 28, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Order, gentlemen. We have a private bill to deal with first this morning, bill G2, passed on to us by the senate.

The committee thereupon dealt with the private bill.

The CHAIRMAN: Having dealt with this private bill we shall now proceed with our regular order of business.

In attendance: Mr. GRAHAM FORD TOWERS,
Governor of the Bank of Canada.

The CHAIRMAN: Mr. Tucker, I think you have the floor. Mr. Towers has a statement prepared. Is it your pleasure to have Mr. Towers read the statement.

Mr. TUCKER: I think probably the committee would like to have it read. That was their attitude at the last sitting.

Mr. TOWERS: Mr. Chairman, and gentlemen, I should like to make these remarks before replying to Mr. Tucker's question. During the meetings of the committee many of the questions which have been put to me have been really questions on matters of government policy. In such instances I do not believe that it is proper for me to state that certain policies should or should not be adopted. I have tried to indicate, therefore, the various implications of those policies, the nature of sacrifices involved and generally the pros and cons of the situation. I mention this method of reply at the present time because it affects the treatment of some of the questions to which I shall attempt to reply today.

I shall deal first of all with the 100 per cent cash reserve proposed by Mr. Tucker. During the course of the last meeting Mr. Tucker suggested that the maintenance of 100 per cent cash reserves against bank deposits would not involve a restricted loaning policy by the banks, if such loans were eligible for rediscount at the central bank in return for a charge of ½ per cent. Mr. Tucker stated that a plan of this kind would offer certain advantages over the present procedure:

(a) Government debt charges would be reduced.
(b) Bank depositors would continue to receive interest.
(c) There would be more control over banking operations.

In my opinion the only way to discuss this proposal and at the same time avoid utter confusion, is to relate it directly to its effect upon the financial statements of the institutions concerned. With that in mind, I should like to place upon the record summary balance sheets of the Bank of Canada and the chartered banks in millions of dollars as at December 31, 1938.

BANK OF CANADA

Assets		*Liabilities*	
Gold	186	Banks' Cash Reserve	257
Securities	186	Active Notes	118
All other (net)	3		
	375		375

CHARTERED BANKS*

Assets		*Liabilities*	
Cash Reserve	257	Canadian Deposits	2,498
Govt. Securities	1,162	Note Circulation (net)	88
Loans	1,005	Shareholder Equity	279
All Other (net)	441		
	2,865		2,865

*Canadian business only.

Since an important feature of the proposal under discussion is its effect upon the income position of the banks, I should like to indicate roughly their earnings and expenditures on the basis of such approximate rates as I mentioned the other day. I would repeat that these are my own guesses, but I believe they are accurate enough for this purpose.

Earnings are about as follows:

on $1,162 mm. Government Securities	$25 mm.
" $1,005 mm. Canadian Loans	50 mm.
" Earnings on all other Canadian assets, totalling $441 mm. plus earnings from exchange dealings and all other services	12 mm.
Total (approximately)	87 mm.

Expenditures are about as follows:

Operating costs (including taxes) *at least*	$50 mm.
Interest paid to Depositors	25 mm.
Dividends paid to Shareholders	12 mm.
Total (approximately)	87 mm.

Let us suppose that Mr. Tucker's plan were adopted, government securities being redeemed in cash and the banks obtaining sufficient additional cash to provide a 100 per cent reserve against deposits, by rediscounting loans or other investments at the central bank. I believe it will be easier if we assume as a first stage that only government securities held by the banks have been redeemed in cash.

At this point I should like to place on the record the summary balance sheets as of December 31, 1938, adjusted for the effects of the assumed transactions.

BANK OF CANADA

(At December 31/38—100% cash reserve for banks)

Assets—		Liabilities—	
Gold	186	Banks' cash reserve	2,498
Securities	....	Active notes	118
Government advance	1,348		
Discounts	1,079		
All other (net)	3		
	2,616		2,616

CHARTERED BANKS

(At December 31/38—100 per cent cash reserves)

Assets—		Liabilities—	
Cash reserves, of which		Canadian deposits	2,498
Loans rediscounted	1,005	Note circulation (net)	88
Other rediscounts	74	Shareholders' equity	279
Other cash	1,419		
Total	2,498		
Other assets (net)	367		
	2,865		2,865

The amount of chartered bank deposits would still be $2,498 millions but against those deposits the banks would be holding cash of the same amount.

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The effect of the assumed transaction upon government finances would be a reduction of $25 millions in debt interest formerly paid to the banks and an increase in revenue of $5 millions from the ½ per cent charge on rediscounts at the central bank—a total improvement of about $30 millions.

The banks, on the other hand, would not receive the $25 millions formerly paid on their government security holdings and would have to pay $5 millions on the rediscounts at the central bank. Other operating expenses would remain at about $50 millions and the banks would be forced to make a choice between increasing their charges on loans and services and reducing their payments to the public in deposit interest and dividends, in order to offset a net decrease in income of $30 millions.

If we assume that the redemption of government securities by payment in cash, were extended to include the $3,000 millions government securities held by the Canadian public, the effect upon the balance sheets of the Bank of Canada and the chartered banks would be that shown in the tables which I now place on the record.

BANK OF CANADA

(At December 31/38—100% cash reserves—all internal government debt redeemed)

Assets—		Liabilities—	
Gold	186	Banks' cash reserves	5,498
Securities	....	Active notes	118
Government advance	4,348		
Discounts	1,079		
All other (net)	3		
	5,616		5,616

CHARTERED BANKS

(At December 31/38—100% cash reserves—all internal government debt redeemed)

Assets—		Liabilities—	
Cash reserves, of which		Canadian deposits	5,498
Loans, rediscounted	1,005	Note circulation (net)	88
Other rediscounts	74	Shareholders' equity	279
Other cash	4,419		
Other assets (net)	367		
	5,865		5,865

The cash given to the public in payment for the $3,000 millions government securities held by them, would be deposited at the chartered banks increasing deposits from $2,498 millions to $5,498 millions and raising cash reserves by the same amount.

On the assumption that all internal government debt would be converted into cash, the reduction on government interest charges would be about $150 millions, of which $125 millions would represent a reduction in security interest received by the Canadian people and $25 millions a reduction in interest received by the banks which decline as I pointed out a few moments ago would be passed on to the Canadian people in one form or another.

Variations in the detail or scope of the proposals which in general may be referred to as 100 per cent Money, will naturally effect the magnitude of the changes involved, but it remains true in every case that for each dollar by which the government reduces its interest charges there is a corresponding decline in the income of the public, in the form of a smaller return on investments, a reduction in interest on bank deposits and probably through increased charges on bank loans and banking services.

I can only repeat what I have already said on several occasions, namely, that I do not see how a proposal of this kind can be "costless" to the country as a whole nor how it can fail to cause widespread inequality of sacrifice.

In regard to the other argument which is advanced in favour of the 100 per cent cash reserve plan, that is, its value as a method of monetary control, I should like to make a few comments.

The first point is that if the redemption of government debt in cash is applied to the publicly-held debt, there is an increase of about $3,000 millions in the volume of bank deposits—approximately doubling the existing volume of money in Canada. If this large increase in the amount of money remained idle, there might be no serious effects beyond the inequitable taxation which has been discussed. But if the additional money were used by its owners there would be very marked effects—effects which the Bank of Canada does not believe would be favourable or it would have taken steps under the existing system to provide the basis for such an expansion.

Secondly, in regard to the suggestion that 100 per cent cash reserves would provide more control over the lending activities of the banks, I would point out that if the central bank merely rediscounted whatever loans the banks chose to present, there is no reason to believe that bank's loaning policy would be any different than it is to-day. If, on the other hand, the central bank were to assume the responsibility for deciding what loans should or should not be made, I believe that to perform such a task efficiently would require a huge organization. As to whether the results would be better than under the present system, I could not say, but I believe the determining factor would be the experience and judgment of the persons involved.

The next question of Mr. Tucker I have paraphrased slightly, perhaps, and the question is approximately as follows: Why has the Bank of Canada maintained the exchange value of the Canadian dollar in terms of other currencies rather than following a policy of keeping the dollar at a discount?

During the last few years the exchange value of the Canadian dollar has been maintained in terms of other currencies by the naturally strong position of the Canadian balance of payments—not because of support derived from the Bank of Canada. To have produced a discount in terms of other currencies, it would have been necessary to take some positive action in the exchange market *or* to have created such an internal situation as to have weakened the balance of payments position.

As to the factors, which should be taken into consideration before deciding upon a policy of this kind, I do not believe I can add anything to what I said in the memorandum contained in the minutes of proceedings and evidence of the meeting on March 31, pages 84 and 85. From that memorandum I should like to quote the following passage:—

> Currency depreciation would increase the dollar value of the Canadian national income by creating a higher level of prices, but its effect upon *real* national income would depend on the degree of stimulus given to economic activity by the internal realignment of costs and prices. An increase of export income in Canadian dollars achieved at the cost of paying a correspondingly larger amount for imports, debt charges and other foreign obligations would not *per se* raise the real income in Canada.
>
> The degree of stimulus imparted to domestic economic activity by an increase in prices relative to costs would depend upon the reaction of public confidence to the policy of currency depreciation, which would vary according to the circumstances under which the depreciation occurred; upon whether it was a correction of an existing maladjustment or the creator of new maladjustments. It is important to remember that there are very few instances of a country depreciating its currency unless subject to considerable pressure because of an unfavourable balance of trade or an outward movement of capital. Deliberate currency depreciation by a country enjoying a strong balance of pay-

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ments position, in order to gain competitive advantage or to adjust price relationships, might react so unfavourably upon public confidence as to cause an actual fall in economic activity and a decline in real national income.

A further question of Mr. Tucker's was: How much more would be received by Canadian farmers for wheat, butter, cheese and bacon if the Canadian dollar were at a 25 per cent discount below the pound sterling instead of at par?

Currency depreciation is a measure so far-reaching as to affect almost every aspect of the economy and it would be impossible to present a statistical analysis of its effects on any particular group. It is equally impossible to ascertain *a priori* exactly what the effect of such a policy would be and to say afterwards what the effect has been, because inevitably there are a great many unknown factors which cannot be measured.

As I mentioned in the earlier memorandum "Monetary Policy and the Price Level", currency depreciation tends to raise the level of export prices in terms of Canadian dollars; but the actual increase in price which takes place may vary considerably from the amount of depreciation.

It is important to remember that several of the commodities named by Mr. Tucker, have an important domestic market as well as export markets. There is no way of forecasting the exact effect of currency depreciation upon the price which Canadian consumers are willing to pay.

Even if it were possible to calculate the extra dollar income which Canadian farmers might receive as a result of a 25 per cent currency depreciation, it would be very misleading to regard the result as being the benefit received by farmers from that policy. " . . . when allowance was made for the rise in prices of imported goods and goods made from imported materials and the increase in interest charges payable in foreign currencies, the net benefit by export industries would be very much less than the amount of depreciation. Any net benefit that might be retained would be temporary, existing only during the period in which other costs lagged behind the general rise in prices. Some benefit in relation to debt might be retained, but an improvement in this respect could be obtained by means of internal adjustments either of a monetary or non-monetary character." I quote from the earlier memorandum to which I referred.

The major effect of a policy of currency depreciation is an internal transfer; but it may involve a net loss to the country as a whole by giving something away to other countries, particularly if adopted under the conditions which have existed in Canada during the last few years.

It is with regret that I have to state that it is impossible to give a specific answer to Mr. Tucker's question, because it is one of a number of questions to which such an answer would simplify the problems of monetary management.

The next question is : Why does the Bank of Canada believe that no more monetary expansion is necessary when the level of prices remains so low?

Before replying to this question I should point out that while I have referred to the probable results of certain extreme policies which have been under discussion, I have not expressed any opinions as to what the future policy of the Bank of Canada should be. I have expressed the belief that a more substantial degree of monetary expansion in recent years would not have aided the country, nor would it have raised the price level unless it had been so extreme as to inspire lack of confidence and a flight from money. What the future policy should be can only be determined in the light of circumstances of the time.

My answer to the thought underlying Mr. Tucker's question is as follows:—

The importance in the Canadian price structure of export and import prices which are chiefly determined in world markets, makes it most improbable that internal monetary expansion can appreciably raise the general level of prices in this country unless the internal policy is such as to affect existing external currency alignments.

In replying to the two preceding questions I dealt with the various factors which should be taken into consideration before deciding on a policy of currency depreciation.

In any event, no monetary policy such as currency depreciation can hope to bring about more than a slight temporary improvement in the relationships between various price groups, which relationships are usually more important than the general price level. I have indicated in an earlier memorandum that the relation of primary products' prices to other prices does not appear to have been more favourable in countries which depreciated their currencies below the Canadian dollar.

I do not believe, of course, that the present level of Canadian prices is entirely satisfactory—far from it. But I do question the possibility that an intensification of the policy of domestic monetary expansion would have resulted under conditions as they have been, or would result under existing conditions, in an appreciably higher price level; omitting from consideration the rise in prices that follows lack of confidence in the currency and is desired by no one. The low level of Canadian prices in relation to pre-depression years, is chiefly the result of non-monetary factors and in my opinion an appreciable improvement in the situation depends upon non-monetary developments.

The next question was to this effect: Why is it said that taxpayers have to pay for debt increases and what justification is there for fear of an increasing amount of internal debt?

In my opinion one should not attempt to generalize upon the consequences of an increase in debt, because the burden depends upon the use to which the debt has been put and upon the future income of the country concerned.

When the government borrows, it acquires the use of a certain amount of labour and equipment. If the purposes to which these factors are applied, are at least as productive as the alternative uses to which they would have been put if the government had not borrowed, then I would say that there was no real burden upon the taxpayer. Although he would pay more in taxes to cover the government's interest charges, he would receive back the interest paid and have at least as large an income of goods and services as before.

However, when the government borrows for non-productive purposes or purposes that are less productive than the alternative uses to which the labour and equipment would have been put, then there is a definite burden on the taxpayer because he receives a smaller income in goods and services than he otherwise would have received. The real limitation upon an increase in non-productive debt is the extent to which people are willing or able to do without goods and services which they might otherwise have had.

Mr. Tucker's question appears to imply the suggestion that only if debt is paid off in the future is there any burden upon the taxpayer. On the contrary, the real burden of debt is borne at the time the debt is incurred, when factors of production are diverted to other uses than producing the goods and services which he has been consuming.

Paying off internal debt does not necessarily add to the taxpayer's burden and indeed may be in his best interests. In theory, it should not matter how great an amount of debt interest is collected by the government from the people and paid back to the people. But in a country such as Canada where national income and government revenues fluctuate quite widely, it is desirable to keep fixed charges as small as possible. Otherwise the pressure upon the government to obtain sufficient revenue to meet its fixed obligations during a period of depression, may cause serious maldistribution of income and further impair the general level of economic activity.

To summarize, I would say that it is very important to remember when considering the effects of an increase in internal debt, that in so far as the

country as a whole is concerned whatever burden is involved is inevitably imposed at the time the expenditure is made—not at the time when the debt is paid off.

A question was raised by Mr. Stevens on the subject of chartered banks' commercial loans and the amount of holding of government securities.

At the last meeting Mr. Stevens referred to the lower level of banks' commercial loans which are some $164 millions below the 1926 level and asked if these loans could not be greatly increased, at the same time decreasing bank holdings of government securities which are some $858 millions higher than in 1926.

The low level of commercial loans at the present time as compared with pre-depression years, is partly because of a somewhat smaller volume of business, partly because of a lower general level of prices and partly because of the relatively liquid working capital position of many Canadian firms.

I should expect that commercial loans would rise when the volume of business and level of prices increased and when Canadian industry required more working capital. Under these conditions I should hope that government debts would be declining and public savings available for investment, rising, so that a considerable reduction in banks' security portfolios could take place without unduly affecting the interest rate structure.

Incidentally, I do not think that an attitude of hopelessness towards the commercial loan situation is warranted. Between December, 1936, and December, 1938, these loans rose from $675 millions to $806 millions—an increase of $131 millions or 19 per cent.

Naturally, I do not suggest that the position in respect of commercial loans is satisfactory, because I agree that business conditions are not satisfactory; but I do think an improvement in one will give an accompanying improvement in the other.

This further question was asked: Why is it necessary for Canada to borrow abroad instead of making use of its domestic credit facilities?

Before attempting to reply to this question I would like to point out again that during the last few years Canada actually has reduced its obligations abroad by over five hundred million dollars.

One should remember that the decision between foreign and domestic borrowing does not simply rest upon whether it is possible to create a certain amount of money in Canada. The real consideration is the amount of our obligations and requirements abroad in relation to our means of paying for them.

For instance, the amount of foreign debt which can be repatriated at any given time depends upon the credit balance on international account. Repatriation of foreign debt cannot exceed the amount of that credit balance and if maturities of foreign issues are larger, then it is necessary to make refunding issues abroad.

If borrowing is for domestic purposes which may require an increased import of goods and services from abroad, it may become necessary to borrow abroad rather than internally in order to obtain the needed purchasing power in other countries.

Finally, there was a question as to how long it is possible to go on increasing debt and, at the same time, decreasing the carrying charge. I can only say that it is impossible for me to answer that question because the future level of interest rates and the future amount of debts are unknown factors.

There was also a request for a table dealing with the Dominion of Canada funded debt and interest payments. With the permission of the committee I shall place that table on record, also a table answering as well as we can the request for a table showing the volume of money in Canada divided between the various kinds, since 1867. I have prepared this table to be placed on the

record and have shown all the information available on the amount of the various kinds of money. Unfortunately, there is not sufficient statistical information to present the calculation of the total volume of money prior to 1926. What information is available will be found in this table.

DOMINION OF CANADA FUNDED DEBT AND INTEREST

(Millions of Dollars)

As at March 31	Gross Amounts Outstanding(1)			Annual Interest Payable (2)			Total Average Coupon
	Dominion Direct	Dominion Guar-anteed	Total	Dominion Direct	Dominion Guar-anteed	Total	
							%
1929	2,325·4	714·2	3,039·6	116·8	31·8	148·6	4·89
1930	2,250·8	837·0	3,087·8	112·9	38·2	151·1	4·89
1931	2,345·8	954·9	3,300·7	116·7	43·6	160·3	4·86
1932	2,545·9	1,000·5	3,546·4	120·5	45·6	166·2	4·69
1933	2,682·6	996·2	3,678·8	125·6	45·4	171·0	4·65
1934	2,825·3	993·3	3,818·6	127·3	45·3	172·6	4·54
1935	3,028·7	987·3	4,016·0	123·7	44·6	168·3	4·28
1936	3,232·0	994·6	4,226·6	125·6	41·4	167·0	4·07
1937	3,304·0	1,003·3	4,307·3	122·6	40·8	163·4	3·93
1938	3,281·2	1,050·6	4,331·8	114·7	42·0	156·7	3·75
December, 1938	3,372·4	1,035·5	4,407·9	117·4	41·7	159·0	3·74

(1) Including Treasury Bills; exxluding School Land Debenture Stock and matured items.
(2) Excluding charges on discount Treasury Bills.

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VOLUME OF CANADIAN MONEY 1867–1938

(Millions of Dollars)

Dec. 31	Subs. Coin			Dominion or Bank of Commerce Notes			Bank Notes			Canadian Bank Deposits		Total Money*
	Issue	In Banks	Net	Issue	In Banks	Net	Issue	In Banks	Net	Public	Total	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	%	%	%	%	%	%	%	%	%	%	%	%
1867......	—	—	—	4·3	—	—	9·8	—	—	32·6	—	
1871......	—	—	—	11·0	6·9	4·1	24·5	—	—	50·3	—	
1881......	—	—	—	15·0	9·9	5·1	32·4	—	—	89·6	—	
1891......	—	—	—	16·2	10·1	6·1	35·6	—	—	152·8	161·5	
1901......	9·0	—	—	30·3	21·4	8·9	54·4	—	—	335·7	347·6	
1902......	9·8	—	—	34·4	24·7	9·7	60·6	—	—	370·1	382·9	
1903......	10·4	—	—	41·1	30·9	10·2	62·5	—	—	339·9	411·9	
1904......	10·8	—	—	47·8	38·4	9·4	64·5	—	—	453·4	471·8	
1905......	11·3	—	—	49·0	38·1	10·9	70·7	—	—	512·2	529·5	
1906......	12·1	—	—	56·5	44·3	12·2	78·4	—	—	590·9	611·7	
1907......	13·4	—	—	62·6	50·0	12·6	77·5	—	—	559·8	585·3	
1908......	13·4	—	—	79·4	66·1	13·3	73·1	—	—	639·9	663·8	
1909......	14·1	—	—	87·0	73·2	13·8	81·3	—	—	760·4	797·3	
1910......	15·3	—	—	90·7	76·0	14·7	87·7	—	—	825·1	860·6	
1911......	16·7	—	—	115·2	97·7	17·5	102·0	—	—	926·1	966·1	
1912......	18·0	—	—	115·8	94·6	21·2	110·0	—	—	1,012·3	1,058·6	
1913......	19·0	—	—	131·2	111·2	20·0	108·6	—	—	1,006·1	1,046·2	
1914......	19·7	—	—	162·4	143·2	19·2	106·0	—	—	1,012·7	1,052·3	
1915......	19·8	—	—	178·8	156·7	22·1	122·2	—	—	1,144·7	1,207·7	
1916......	21·1	—	—	181·0	156·5	24·5	148·8	—	—	1,303·2	1,348·3	
1917......	23·0	—	—	272·9	245·1	27·8	192·9	—	—	1,565·4	1,610·6	
1918......	25·5	—	—	327·4	298·1	29·3	224·5	—	—	1,669·5	1,842·2	
1919......	28·8	—	—	318·7	288·3	30·4	232·5	—	—	1,841·5	1,994·7	
1920......	30·3	—	—	311·7	279·3	32·4	228·8	—	—	1,950·5	1,993·4	
1921......	30·3	—	—	280·9	253·7	27·2	184·6	—	—	1,781·8	1,855·3	
1922......	30·2	—	—	257·3	229·9	27·4	176·2	—	—	1,722·3	1,784·1	
1923......	30·2	—	—	248·7	220·5	28·2	180·2	21·1	159·1	1,739·9	1,834·9	
1924......	30·1	—	—	261·7	233·4	28·3	165·7	16·8	148·9	1,832·9	1,911·7	
1925......	30·1	—	—	227·2	208·9	18·3	173·9	16·2	157·7	1,916·3	1,972·8	
1926......	30·0	7·0E	23·0E	210·4	179·6	30·8	175·1	15·7	159·4	1,981·7	2,024·8	2,238·0
1927......	30·0	5·9E	24·1E	220·8	191·6	29·2	182·7	19·6	163·1	2,129·0	2,204·4	2,420·8
1928......	31·0	6·3E	24·7E	221·9	191·9	30·0	186·1	22·9	163·2	2,235·3	2,314·9	2,532·8
1929......	32·3	6·2	26·1	203·9	172·3	31·6	175·5	20·0	155·5	2,163·7	2,270·3	2,483·5
1930......	32·4	7·0	25·4	175·4	145·8	29·6	148·0	15·0	133·0	2,067·5	2,127·8	2,315·8
1931......	32·8	5·7	27·1	174·4	143·9	30·5	141·0	11·9	129·1	1,926·6	2,068·8	2,255·5
1932......	33·4	6·6	26·8	191·2	162·0	29·2	127·1	12·1	115·0	1,843·7	1,928·0	2,099·0
1933......	33·3	7·0	26·3	182·6	152·3	30·3	132·1	11·4	120·7	1,858·8	1,933·0	2,110·3
1934......	33·7	6·6	27·1	217·0	183·2	33·8	136·4	13·0	123·7	1,982·7	2,050·4	2,234·7
1935......	33·7	5·7	28·3	99·7	40·6	59·1	118·9	7·9	111·0	2,157·2	2,208·4	2,406·8
1936......	34·0	5·0	29·0	135·7	47·9	87·8	109·1	5·9	103·2	2,295·2	2,322·9	2,542·9
1937......	34·5	4·8	29·7	165·3	53·9	111·4	101·7	5·7	96·0	2,334·7	2,386·8	2,623·9
1938......	35·8	5·2	30·6	175·3	56·8	118·5	94·5	6·2	88·3	2,459·9	2,498·1	2,735·5

*Total of Columns 3, 6, 9 and 11.

Mr. Tucker: Mr. Chairman, there are a few questions I should like to ask arising out of these statements. Of course, I cannot deal with them entirely because I should like to see the tables first. Dr. Donnelly has to attend another committee meeting and as he desires to ask Mr. Towers some questions I shall defer to him.

By Mr. Donnelly:

Q. Mr. Chairman, I should like to ask Mr. Towers a few questions which he can either answer now or later, in the form of a statement, just as he sees fit.

I think I am safe in saying that some years ago all parties in the house were in favour of setting up a central bank. We were all anxious for a central bank. We have a central bank in existence at the present time and, as a practical public man I am continually being asked throughout the country what the central bank does that we did not have done before; what the central bank does to justify its existence, and I am at sea so far as an answer to those questions is concerned. I should like, therefore, if Mr. Towers would give us something to show the justification of the central bank.

I should like Mr. Towers to tell us what the central bank does now that the treasury board did before, and how much better it is done by the central bank than it was done by the treasury board. I should also like to know what work the central bank does now that the banks did formerly, and how much better it is done now than formerly by the banks. Also what work the central bank does now that was not done formerly by the treasury board or by the banks, and how much better it is done.

I should also like him to tell us how much of the money that is earned at the present time by the central bank was earned by the treasury board, and in detail whether they get more or less than the treasury board got.

In the same way, how much of the money earned now by the central bank was formerly earned by the banks, and the details of the work relating thereto.

In the same way, for the work which is now done by the central bank that was not done formerly either by the treasury board or by the banks, what money is now earned that was earned by neither of those two organizations.

I should also like Mr. Towers to tell us the cost of running the central bank, the number of employees, the amount of money paid in salaries in detail, and all the other expenses of running our central bank, so that we shall be in a position to answer some of the questions that are continually being asked throughout the country.—A. I should like to give very careful thought to those questions, Dr. Donnelly, if I may, and prepare a reply for a subsequent meeting.

Mr. DONNELLY: Does anyone else want to ask any questions along that line?

The CHAIRMAN: In that connection, Mr. Towers, I wonder if you would give us the number of branch banks in Canada before the central bank was formed and the latest number to date?

Hon. Mr. STEVENS: Branch banks of commercial banks?

The CHAIRMAN: Yes, branches of commercial banks.

By Mr. Tucker:

Q. Mr. Towers, there is one question in my mind which I could never justify. I could never understand why we gave the Bank of Canada the right to issue bank notes with the 25 per cent gold coverage, which meant that they could issue the notes and buy gold coverage, and why we gave government bonds to the Bank of Canada to cover the currency that had been issued prior to the time the bank came into existence. It seemed to me that agreeing to give the Bank of Canada bonds bearing interest at $3\frac{1}{2}$ per cent—A. 3 per cent.

Q. —was just agreeing to pay a definite subsidy to the Bank of Canada. My own idea is that in all statements rendered we should have a true picture of what the Bank of Canada is costing the people of Canada, and that the subsidy which was given to them, and on which they are earning now by virtue

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of those bonds ultimately being bought and then being able to invest in other bonds, should always be shown separately, because to me it is just a definite subsidy.—A. You recall, of course, Mr. Tucker, that all the profits of the Bank of Canada go to the government?

Q. Yes, but I am not bringing that question up. What I am bringing up is that as a member I want to feel that I know what the Bank of Canada is really costing the people of Canada, and if we are giving them a secret subsidy, in the way I have mentioned, then it is not really giving the people a true picture to show part of that money as profits. I do not think, myself, it was sound to do that because it leads the banks to believe that they are making profits which they are not actually making and also leads them to make expenditures which they would not make if they did not feel that they had those profits to rely upon. I do not ask Mr. Towers for an answer to that question today, but I should like him to bear that in mind when he is preparing an answer to Dr. Donnelly's question. I think that should be written right out of the balance sheet or shown separately, because I think the so-called profits really mean the turning back to us of a subsidy which we gave the Bank of Canada in the past.

Now, in regard to your last answer there is an assumption which I do not think is warranted by the facts and circumstances in Canada to-day. You have suggested that if the government were to increase its debt, it might have a bad effect because it would mean a transfer of activity; that the money used for that purpose might have been used for other purposes. It seems to me that that is a terriffc assumption in the light of the present condition of our Canadian economy because if the government does not furnish those people with that purchasing power it will not gain a transfer of activity and the activity which might otherwise have taken place will not take place at all. In other words, lumber mills to-day are not working at anything like capacity, neither are clothing manufacturing establishments, farm implement manufacturing establishments, and so on. And when you increase your debt, as you have done in the past without increasing the carrying charge of that debt, you bring into operation activity increasing the national wealth of this country that otherwise would not come into existence at all. I do not see how that can possibly be denied. At the same time you assume in your answer that we have already got our economic machine functioning to full capacity. In that connection I should like to read a quotation by Mr. Meade from this Irish report. I wish you would add this to what I have said and answer it accordingly in your statement:

> So long as there is a large amount of unemployed labour and of idle capital, the total amount of money spent on goods should be increased. For, while increased expenditure on goods will cause some rise in prices, yet, so long as considerable unemployment exists, a small rise in price will make it profitable to produce on a much larger scale . . . In this respect the foregoing proposals must be sharply distinguished from an attempt to finance an ordinary budget deficit by inflationary measures. For if a government finances a permanent budget deficit by printing more paper money, this must lead to progressive and inflationary rises in prices as soon as all factors of production are employed. But those other proposals cannot lead to a progressive inflation of prices . . . (They) are designed to maintain and increase money purchasing power as long as serious unemployment exists and as long as such action can cause output and employment to increase; and they will cause equally strong deflationary measures (i.e., when credits are replaced by taxation) as soon as the money demand for commodities becomes excessively great.

What we are dealing with before this committee is not an ideal state where everybody is employed and all factories are operating, but the condition in which Canada finds itself to-day, and that is the basis upon which I ask the

question.—A. I think that the best thing for me to do is to consider very carefully the implications of what you have just said and to reply at the next meeting. But I can point out here, of course, that in my answer to-day I said that if the purpose of the borrowing is at least as productive as the alternative uses to which the moneys would have been put, and so on. If one assume that the alternative uses are nil—

Q. Which is the case.—A. —and that in effect the money would have been lying idle you open up exactly the subject to which you have been referring.

Q. And which is the case in Canada to-day?—A. I would not say it is 100 per cent the case.

Q. Well, to a great extent?—A. There has been that tendency. There was a tendency which I think was recognized in an earlier memorandum. That is to be found in the report of the sixth meeting of the committee where I was speaking about the desirability or undesirability of government deficits under certain conditions. I think that contains a portion of the answer so far as we can give one. But I should also like to expand that in specific ways related to your question of a few minutes ago.

Q. I appreciate that, and I think that is probably the best way to make progress. What I wanted to bring out very definitely was that during the past ten years there has been an increase in the debt of Canada by approximately one billion dollars.—A. In the direct debt, as I recall it, yes.

Q. And the cost of carrying it has actually been decreased instead of increased. So that these people who cry out against the increase in debt would have wanted the money that was spent in that increase in debt given to people whereby they would be able to buy things and keep our factories in motion. Apparently they would have wanted that money not spent, even though it did not cost the people of Canada a single nickle. That is the point I want you to bear in mind in answering my question. I should also like you to bear this in mind. It is admitted to-day in the present circumstances that unless the people of western Canada—coming back to that situation—have reasonable purchasing power during this time of transition and international emergency our factories in eastern Canada will be partly idle. Would it not be better to give those people the purchasing power whereby they could maintain their standard of living and their industry, not at the cost of any other industry or anybody else but rather to their benefit, because people who would otherwise be idle would be working producing things in the factories in the east? It seems to me that is a fundamental question which Canada has to face to-day.

Mr. Landeryou: Hear, hear.

By Mr. Tucker:

Q. Does a nation increase in wealth by keeping its factories and men idle rather than putting them to work producing wealth? That is a fundamental matter which I think we have to face.—A. In other words you would like to know to what extent the situation can be cured by making grants, so to speak, either by borrowing the money or obtaining it in some other form?

By Mr. Deachman:

Q. Would it not be equally as good or of equal value if instead of adding to these expenditures we reduced taxation? For instance, if we got rid of the sales tax it would return purchasing power to the consumer sections of the country.—A. In this particular, of course, what Mr. Tucker wants to do is to channel a large amount of purchasing power to a specific area and a specific set of people; more that than raising the purchasing power the way you mention all over the country.

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Q. Would it not be equally advantageous to increase purchasing power generally and diffuse it throughout the country thereby bringing about a measure of basic prosperity instead of directing it into certain channels?—A. So far as the country as a whole is concerned, I think that might be the case. But it still might be the case that there were distressed areas which increased purchasing power would not reach in full measure and which would therefore call for special action of a relief character.

Q. Of course, we have other sections like Nova Scotia.—A. Yes.

By Mr. Tucker:

Q. With all due deference to my honourable friend I should like you to deal in your answer with the fallacy in his assumption, that if this billion dollars that we spent in the last ten years had not been spent there would have been a corresponding reduction in taxation. I think that is a fundamental fallacy, with all due deference to my honourable friend.—A. It all depends upon what would have happened if something else had not happened. That is the extraordinary difficulty in appraising any situation; one never knows the other side of the picture. If there had been no central bank, no expansive monetary policy, and so forth, what would have happened in those circumstances? You never know exactly what would happen.

Q. It should be quite easy to answer that question though, Mr. Towers, because if that billion dollars had not been the increase in debt, my honourable friend's assumption that there would have been $100,000,000 decrease in taxation is not correct. Anyone who looks at our balance sheet can realize that that is simply impossible. So that the assumption which my honourable friend makes is simply not correct in the face of the facts.—A. No, I think he went one step further and said if there had been such a decrease in taxes might not that have promoted a situation which would have made the debt increase unnecessary.

Q. How could you decrease taxation during the last ten years—

Mr. LANDERYOU: When you have your increased debt.

By Mr. Tucker:

Q. —If you were not going to increase the debt?—A. I think his thought was that if you decreased taxation and promoted a higher level of economic activity the necessity of government expenditure would be decreased and the amount of government revenue might actually be increased even on a lower level of taxation. Is that your thought?

By Mr. Deachman:

Q. Briefly, my suggestion is this: Take a position in which we are practically in balance, that is, the budget is balanced, and yet there is unemployment in certain sections of the community; we have two alternatives, one to provide employment by the employment of money for productive purposes. Of course, I can hardly think of the employment of money by government in public works for productive purposes. But we have those two alternatives, one to face a budget deficit and increase the purchasing power of the community by a lowering of taxes, or to expend money in the other way and add to the debt by the building of public works which are more or less unnecessary and which tend to increase the costs in the future.—A. That question, of course, is one which is fiercely debated in the United States today. There is one school of thought which says "Because of changing times, because of this, that, and the other thing, private initiative is gone; there is no private demand for savings to put into capital development, and so forth. So long as that persists we will have more unemployment, and it looks as if it will persist,

unfortunately. Therefore, the government must step in and borrow those savings and spend the money. The size of the government deficit should be more or less equal to the size of the savings". There are others who say that policy has not worked. No one suggests it is a policy which can be continued year after year, for ever and a day. Those who hold these views say that had you not done certain things, private spending would have taken place. Now where the answer is, whether on one side or the other, or somewhere in between, I do not know.

Mr. LANDERYOU: Mr. Chairman, I have a question I should like to ask but if I may have an opportunity later I will let Mr. Tucker conclude. I have taken a note of the question.

By Mr. Tucker:

Q. That brings up another point which I think is submitted by economists and which formerly was not admitted. The idea used to be held that when deflation reached a certain level there would then be recovery. But is it not more or less recognized by economists today that when you bring your price level to a certain point, unless the government intervenes in some way to really set the machine in motion and stimulate activity it will pretty well stay at that level? That has been the experience in Canada pretty well, is that not the case?—A. I think that, superimposed on the ordinary troubles of an economic cycle, you have had in these last ten years political events in Europe which have quite changed the whole situation, impeding any natural form of recovery.

Q. Therefore, if private capital is going to be so timid in the face of world events that it will not embark on activity to put the necessary purchasing power in the hands of the people, the government, as pointed out by the Minister of Finance, has absolutely no alternative but by borrowing and budget deficits to place in their hands the means to consume the things that our productive power would enable us to produce. Otherwise you have waste. As another great statesman in Canada has said, you have got water going over the dam. That is correct?—A. The principle is easy to state; the practice, of course, is much harder, because it is necessary to have the government deficit exactly attuned to the situation—that they should borrow money which would not otherwise have been used, but not go so far as to take money which otherwise would have been used for productive purposes. When do you reach that point? When do you go beyond it to an extent which means that you actually are borrowing and using for non-productive purposes money which left alone would have gone to strengthen the economy? That is a hard thing to find and answer for.

Q. That was the attitude which Dr. Schacht took in explaining the German economic policy in his speech of November 29 last which I read you. You remember by reading that?—A. Yes.

Q. That until they had German employment at full capacity they figured they could use state created credit to do so; but once they had German employment up to full capacity then any use of state credit would take activity from other activities to state subsidized activities and would necessarily mean inflation. That is correct?—A. Yes. Of course, there is the question which I said was so hard to find an answer for; that is, how far can you go without destroying private initiative and the private use of capital? That question is not quite so hard to answer in Germany where private initiative does not count for so much. The second part is that they obviously even in Germany come to a point where further expansion of activity along this line is a net loss. That is what Dr. Schacht felt. Obviously he was not able to convince his party people that it was the case and so he has disappeared and they are again starting off on a paper rampage similar to the one which they pursued in the early stages of their affairs.

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By Mr. Landeryou:

Q. Have they a nationalized system there?—A. In effect, yes. Industries are in the hands of private individuals who do what they are told. So that there is a distinction without a difference.

By Mr. Tucker:

Q. On that point, Mr. Towers, you assume that there is some difference between an economic machine such as we have in Canada and an economic machine such as they have in, say, Germany.—A. That is the private initiative part, yes.

Q. Is it not true, though, that we must treat the economic machine in any country from a national viewpoint as serving the national interests, subject to its not interfering unduly with the right of a man to own and benefit by what he does own.—A. And make decisions in regard to what he should do?

Q. I do not think that people in charge of big monopolistic industries in Canada should be permitted to make decisions which are inimical to the national state.

Mr. LANDERYOU: Radio companies and the like.

By Mr. Tucker:

Q. In other words, I think that from the standpoint of employing our productive machinery—our unemployed—you should have the same viewpoint in regard to the production of wealth in our state to the greatest possible extent, as in any other state.—A. I should not be expressing any opinions on matters which of course are entirely questions for parliament to decide, I refer to, the form of government in our country, as to whether it should be communistic, socialistic, or what it is. Perhaps the only thing I could do would be to point out that it would be desirable to have it one thing or another. But falling between two stools is rather common practice nowadays. One has neither the advantage of a totalitarian organization nor the advantage of a democratic one; it is a half-way house which in the circumstances may be a pretty unfortunate dwelling place.

Q. That is exactly what I am getting at; that by refusing to face the situation frankly we are doing that very thing, we are sort of compromising and not realizing that a nation cannot be prosperous by keeping its factories idle and labour unemployed. And when you assume in your answer that it was going to be, by virtue of the government spending, a transfer— —A. Oh, but I did not say that, Mr. Tucker.

Q. Well, I understood you to say that.—A. I said in answer to that question "If the uses to which the government puts the money are at least as productive as the alternative uses to which it would have been put." If you assume that those uses are none at all, then that fits in.

Q. If you have the people down, as you have them in western Canada to-day —and you are familiar with the situation—below a reasonable subsistence level, and if you give them enough to bring them to the point where they can live and function, they are going to buy the things in almost complete measure that we make in Canada, that is, food products, machinery, clothes, etc.—A. In answering your question should I assume that it relates to supply of purchasing power during what is supposed to be a temporary period of inactivity?

Q. Under present circumstances.—A. That you do not suggest a transfer of vocation, so to speak; that you assume that in due course there will be a demand for wheat in sufficient quantity?

Q. Take the situation as it is in western Canada to-day. There seems to be an assumption that Canada as a whole is going to be poorer because you enable those people to buy the things they need which would put people to work

in eastern Canada who would otherwise be idle.—A. Canada as a whole is going to be poorer so long as we cannot find a market for the products which are produced by a large number of people.

Q. But is she going to be poorer by giving those people in the meantime a chance to consume the things which are not being produced to-day but which otherwise would be produced if there was a demand?—A. She has been doing that, of course, during these last few years to an extent, has she not?

Q. And she is no poorer as a result of it.—A. That, I would not like to say.

Q. Are we poorer as a result if we put people to work producing things that otherwise would not be produced?—A. I do not know that we would have been much better off assuming they were not able to sell their products. Are we much poorer?

Q. Are we poorer at all?—A. No. But some people have given up things in order that others might have them.

Q. That is an assumption with which I should like to deal. You say, Mr. Towers, that some people have given up things. Who have given up anything?

Mr. LANDERYOU: To benefit the unemployed.

By Mr. Tucker:

Q. Have you given those people the means of buying clothes, implements, and something to live on?—A. That is the question you put originally and which I would like to put down in as careful an answer as I can.

Q. Under present circumstances in Canada.—A. Yes.

Q. You say that to raise the level of prices means a transfer of wealth or that it affects the relationship between different groups in Canada. What I wanted from you was a concrete indication as to whether that very thing is not desirable to-day in Canada?—A. I think a general increase in the level of prices is desirable, yes.

Q. One of the real transfers that takes place is an improvement of the position of the debtor class as against the creditor class, is it not?—A. Yes.

Q. That is very desirable to-day in Canada, is it not, at least to the level of 1926?—A. Particularly those who are, shall we say, almost entirely in the debtor class?

Q. No, I mean from the standpoint of our national economy?—A. I would not like to swear that the 1926 level was the perfect one, as matters stand, but I would say that a general increase in the level of prices above present figures is desirable.

Q. For example, it is admitted to-day that one of the reasons why the housing industry is not employing far more men is because of the excessive burden of taxation upon real property. That taxation arises out of the fact that the burden of debt on municipalities is so excessive?—A. Perhaps you are not thinking of an answer to that question. I think one has to go pretty carefully in assuming that. I think that the Rowell commission is making a very careful study of that situation. It may have some views to express on it. Again, in some cases, it may not be the level of interest charges which weighs so heavily; there may be excessive administration costs. Who knows?

Q. As a matter of fact, Mr. Towers, I looked into that a year ago and found in a great many of our cities it was taking roughly 50 per cent of their entire income to pay interest. And so the result is that these so-called rigid features of your economy would be rendered less difficult to carry if you got the level of prices back to where the level of prices was in 1926? Is that not correct? —A. Yes.

Q. Therefore any transfer of burden to that extent is very desirable to-day. —A. Yes. I have already said that I thought a somewhat higher price level is desirable, although I would not care to name a specific figure. A rise of a really

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inflationary kind does involve in the process of stopping it some extremely nasty upsets and troubles of another kind. So that I do not suggest that if a rise of prices really gets under way in an inflationary sense any method of stopping it is satisfactory.

Q. If action were taken to gradually restore the level of prices to the level of, say, 1926, there is no thought in your mind that you could not keep that movement under control, is there?—A. It depends on what has caused the price increase. As I said, I think the non-monetary factors, so far as Canada is concerned, are extremely important.

Q. I was wondering when you said that what non-monetary factors could possibly operate to raise the general level of prices in this country under present world conditions?—A. An increase in demand for goods of our major export industries and the rising prices resulting from the increased demand have their effect on the national income. Then the spending of the increased national income partly within Canada and the encouragement which that would give to capital development will soon bring a general increase all round, if a somewhat similar movement is going on in the rest of the world, which by definition it must be.

Q. I am taking world conditions as they are; you have to emphasize world conditions as they are.—A. If one assumes world conditions as they are and that they remain as they are for the next ten years, I do not see any major way in which Canada can pull herself up by her own bootstraps.

The CHAIRMAN: May I suggest we try to avoid repetition, otherwise we lose our quorum.

Mr. TUCKER: I do not think we are having repetition here.

The CHAIRMAN: The Chairman is of that opinion.

Mr. TUCKER: I am sorry; I did not think there was any. I shall try to avoid that. I have tried as much as I can to avoid repetition.

By Mr. Tucker:

Q. What I want to get at is this—I do not want to press it too much, because you may deal with it in your memorandum—what I want to get at is the fact that under present world conditions the only way in which you can raise prices, I submit to you, you can deal with it if you like in your memorandum, is by some form of monetary action? Now, I should like you in your memorandum, following the suggestion of the chairman, to indicate what form that monetary action will take.—A. I have tried to do that to-day and on an earlier occasion. I have two memoranda on that subject already.

Q. I want to point out to you where I want further answers. To-day, the only way you can get money into existence, as I understand it, is through the chartered banks?—A. No.

Q. I mean money within the definition that Dr. Clark gave. That is, the amount of money you put out must inevitably only be an infinitesimally small fraction of the total amount of money in the country?—A. It can be any fraction, or much larger than a fraction.

Q. Well, within the limitation which you place upon yourself, that you are always afraid that if you increase the amount of money the banks are going to magnify on the basis of $10 for every $1 you give them, or $9, it does not matter ?—A. Yes.

Q. Then you must inevitably realize that you have to operate through the chartered banks in increasing substantially the amount of money in the country, operating by an increase through deposits; that is true, is it not?—A. As I understand it, yes.

Q. And the difficulty, I believe you were pointing out in your memorandum was this: how are you going to increase the level of prices under these circum-

stances— —A. Oh, no. You can increase the level of deposits as we have done very easily, but are you going to get the owners of the deposits to spend them? That is the problem.

Q. How can you increase deposits if there are no willing borrowers, as the banks say, unless your government is willing to buy or further to increase its debt?—A. As I pointed out in earlier meetings, the increase in deposits can take place through the banks acquiring from their owners existing government securities. Increase in deposits under the circumstances you mention is not dependent upon the increase in government debt, although it is more likely, things being what they are, to take place during such a time; but it is not essential.

Q. How are you going to force the banks to do that? What I am getting at is this— —A. They have done it.

Q. What I am getting at is this: how can you operate in a monetary way and increase the amount of money in the country in such a way as to raise the level of prices under present circumstances?—A. We have, of course, substantially increased the amount of money in the country, say by $400- or $500-millions during the course of the last few years; but while a central bank can do things to cause an increase in the volume of money, has done so, and can do more, we cannot insure that the money will be spent, nor do we know what it will be spent on, because these things are still within the control of the Canadian people.

Q. Yes; but what I am getting at is, have you any other way in the present set-up of increasing the amount of money substantially, to throw that money on the country so as to affect the general level of prices, except through the chartered banks either purchasing government securities or making loans? —A. No; but that can be done and is done.

Q. And if the chartered banks do not see fit to do that and are content to sit on their present income, is there anything we can do under the present set-up?—A. Yes, you can keep on increasing their cash by one million, two millions, three millions, no limit.

Q. If you do that are you not putting yourself in this position, if there should be a sudden change, they would then magnify their loans to the extent of ten millions and if there is a sudden restriction of credit, that would practically throw the whole machinery out of gear?—A. Generally, yes, but are we not going back to the 40, 50 or 100 per cent reserve proposition?

Q. Yes, that is what I am getting at. To-day in order to put out enough money to affect the level of prices, you have to feed so much money into the system that you create a dangerous situation which you would not have to-day if you were closer to the 100 per cent system. Is not that true?—A. What reason is there for believing that if that increase in the amount of deposits had been a billion instead of $500,000,000, the state of affairs would have been particularly better than it is. If the people do not find the possibilities of making use of the existing very large supplies of money, will you sensibly improve the situation by adding some to it?

Q. In other words, that gets back to the point that if everybody saves and does not consume at all, your whole industrial machine would break down, would it not?—A. Well, of course, it would soon then be impossible for anyone to save at all and you arrive at perfection by double zero.

Q. So that to say that the people as a whole should embark on the self virtue of saving is counselling them to do something that if they all followed would wreck the system; is not that true?—A. There can be such a thing as over-saving under certain conditions, yes.

Q. And is not that one of the difficuties to-day, that people with enormous deposits in the banks are simply not using them?—A. The question then comes

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to this, is it lack of opportunity or lack of initiative? If the former, what causes the lack of opportunity and how can that be cured?

Q. Is not the lack of opportunity this: you have permitted the prices of your products to fall so low that you cannot purchase them and pay your overhead, which includes your debt charges and tax charges, which also pay debt charges, and make a profit? Is not that the reason?—A. Not necessarily in the business sense. I mean to say in a good many cases other adjustments have taken place which bring down overhead and costs to match reduced prices.

Q. It is pretty hard to bring down overhead; for example, the burden of taxes which also has to meet debt and interest charges, bond charges and so on, on factories— —A. It is not impossible to bring them down on factories, of course; witness the newsprint industry.

Q. Also freight rates and definite wage scales.—A. Undoubtedly, the system as it operates in the modern world contains the number of rigidities you mention. That is why a violent change in the price level is even more depressing than it might have been fifty years ago when these other things, wage rates and so on, were more susceptible to change.

Q. Is it not true, then, that the reason why we have the so-called lack of opportunity is that the price level is too low relatively to other items, and that if you actually could raise the level of prices stimulating industrial activity enormously— —A. I would say that so far as the internal structure is concerned, there may be some handicaps—I cannot point to them—there may be still some handicaps in relation to the level of prices, between the relationship of prices and fixed costs. The major trouble—I am sorry to keep harping back to it, but I cannot get away from it—is lack of trade around the world, and to raise prices within Canada by internal monetary action is a very difficult matter indeed. That mainly depends on non-monetary factors, unless one goes at it deliberately in a way which will cause a flight from currency. You can get an increase in prices by monetary action, yes, but perhaps only by a form of monetary action which will inspire fright.

Q. I should like you in your argument to deal with the feasibility of raising the level of prices by depreciating, as they tried to do in the United States, the value of the dollar; that is, instead of increasing the amount of money in circulation, try to raise the price level by simply taking some step which says the dollar will be worth tomorrow 75 cents, so that you simply increase the price level over the whole country.—A. You mean by exchange depreciation.

Q. No.—A. That is the only way it happens.

Q. Well, in the United States they have an idea, as I understand it—A. That is exploded. They had the idea; they have not got it now.

Q. I had my own impression of the idea that you could actually operate directly on the value of the monetary unit without considering its relationship to the rest of the economy of the country. I figured that was exploded; you agree with that?—A. I do, yes.

Q. So that the only way that you can actually decrease the value of the monetary unit is by practically increasing the supply of it, providing at the same time you do not decrease the velocity of circulation?—A. And provided that the increased supply is used.

Q. That is what I mean.—A. Provided you do not decrease the velocity of circulation. Then, there is that other question of exchange depreciation, but I do not think I can add anything to what I have said in at least two, perhaps three or four, memoranda already.

Q. Well, I just want to clear it up to make sure I understand it. There is one other thing I should like to deal with this morning. I mentioned the situation which we have in Canada and which I should like you to deal with in your memorandum, if you will. We have great mineral resources, for

example, in the pre-cambrian shield in Canada, and as I understand the situation today there are a number of resources there, but private investors for one reason or another are unwilling to risk their money in developing these resources within Canada in anything like the volume that would develop them reasonably fast. For example, I noticed just a few months ago, that north of Prince Albert some people have a very rich claim, and they could not get capital interested in this country because of various reasons, which I will not go into. They went down to the States and had to make some sort of a deal with a United States syndicate whereby they would have the lion's share of the value of any development; practically, in effect, turning over our resources to foreign capital. I suggested a policy whereby there might be a board of bank commissioners set up to investigate applications to develop our natural resources—reasonably big projects—whereby the bank might be ordered to join in the advancing of capital to develop some enterprises that were deemed wise to develop from the national standpoint and guaranteed against loss, and thereby we would use our powers to expand our capital instead of having to sell our whole birthright to get foreign capital in here which we do not need except to the extent you mentioned this morning, to purchase abroad. —A. Yes; of course, that question really resolves itself into this: there is ample money available in Canada for the development of the types of resources you mention. What you are visualizing is a situation whereby because of some timorousness on the part of those who are interested in mining or who could furnish the funds, because of their too timorous appraisal of the possible returns, you have to go outside the country to find someone more daring; therefore you suggest in these circumstances the government, not being as timorous as those Canadian citizens, should supply the necessary funds or a guarantee which would enable those funds to be obtained. Well, I do not want to try to sidestep any possible question, Mr. Tucker, but I believe that is one that should be addressed to Mr. Crerar or Mr. Dunning.

Q. I see. Following that up—

The Chairman: Mr. Tucker, it is a quarter to one and there are several questions that other members would like to ask, and Mr. Honeywell has returned. Can you conclude as soon as possible?

Mr. Tucker: I shall just ask this one question to conclude, and then Mr. Deachman wants to ask a question.

By Mr. Tucker:

Q. The banks really under the present set-up are not supposed to use their power to create credit to loan on long-term enterprises, are they?—A. No.

Q. Don't you think it is time we gave very serious consideration towards developing some system to use our power to create credit to develop long-term enterprises in Canada? I mentioned that the other day but you did not deal with it in your memorandum; I wish you would.—A. I think I can answer that right now by saying that investors have ample funds to provide for things of that kind. If the investors think that the risk is not worth it, that the prospects are not sufficiently good, then I can hardly recommend that the banking system should take on those risks which investors thought were too bad.

Q. No; we set up a banking system to operate on short-term credits.—A. And the investors deal with the long-term ones.

Q. Yes. Don't you think that just as the banking system has dealt with short-term credit that private investors did not see fit to go into, we might get into an era now where we have to have probably a further revision of the banking system or a separate system to deal with long-term credits that private investors do not see fit to go into?—A. I do not think the banks deal with short-term credits that private people do not want to deal with. The banks have a system for dealing with short-term credits. Then, there is the investment

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banking system which is an organization that has been acting as a channel that communicates between the person requiring long-term funds and the investor. That is a pretty highly organized system in Canada. As you know, they have received funds from investors on an enormous scale in the past.

Q. If the investor does not feel the proposition is good enough to invest in, that enterprise is not gone ahead with?—A. Then there is the question as to whether some one should take on that risk which the private investor did not think was good enough.

The CHAIRMAN: Mr. Hill has a question he would like to ask.

By Mr. Hill:

Q. The question is on exchange between the United States and Canada. I should like to know why it was that when our money was at par with United States money the banks charged—if you wished to buy American funds—you $\frac{1}{8}$ of 1 per cent, and if you wished to sell, they would give you a profit of $\frac{1}{8}$ of 1 per cent? As soon as the money went down so that our funds sold at $\frac{1}{4}$, $\frac{1}{2}$ to $\frac{3}{4}$ of 1 per cent discount, if you wished to buy they charged you $\frac{3}{4}$ of 1 per cent and if you wished to sell you only got $\frac{1}{4}$ of 1 per cent.—A. On the basis that you mentioned there, was the spread 1 per cent or $\frac{1}{2}$ per cent?

Q. Half of 1 per cent spread. They charged $\frac{1}{2}$ of 1 per cent in one case and in the other it was over $\frac{1}{4}$.—A. So the spread was probably between the two extremes.

Q. Yes.—A. I do not think that I can say anything very useful here in regard to that question. It is a question as to whether the spread is too large, and one would really need to establish that spread more accurately. I am not suggesting that the situation which you mentioned did not occur, but I would hardly think it was the general practice.

Q. It seemed to be the case. I have had dealings practically every other day for the last two months. I find if I call up and ask to sell funds they would give me a certain premium; if I want to buy the spread is much wider than it should be. Why would it not be better for our banks to maintain our exchange at par or else let it drop—

Mr. TUCKER: They were making too much.

By Mr. Hill:

Q. —let it drop so the country would get some benefit. That could be done by issue of currency?—A. The banks do not influence the level of exchange one way or another, because they match their transactions. Coming back to that question of spread, the only thing I can say there would be that if you get further details which would permit investigating that particular case—

Q. But you might set a fixed spread?—A. That might be possible, but in any event the first thing would be investigation as to why any particularly large spread occurred.

Q. I will get you some information.— A. All right.

By Mr. Deachman:

Q. I have one or two questions I want to ask Mr. Towers in regard to private investors. The reason the private investor hesitates today is that he fears he will lose his money; is that it?—A. Yes.

Q. If the government is willing to take on the function of investing under conditions like that, the government is either willing to accept the loss for which the people will pay, or it is matching its judgment against the private investor and assuming it has better judgment than the private investor?—A. Exactly.

Q. Now, if the government is to make these investments it therefore becomes very important what type of investment they have to make.—A. Yes.

Q. And if you are going to do that it would take an advisory board more highly qualified to assist them than would be open to any private corporation.—A. Yes.

Q. Therefore it is extremely difficult?—A. Yes.

Q. Now, I want to go back to this question of exchange. Suppose our currency had followed the pound and that when we started the price of wheat was 60 cents. Assume that the depreciation in our currency is very large—and I am exaggerating here soley for the purpose of emphasis—and our wheat then went to 90 cents, and because of that depreciation in our dollar which is not inconceivable, then would it not follow that the Britisher at first would naturally buy his wheat in Canada, as he could buy it with fewer pounds?—A. Assuming that other countries had not speedily followed us.

Q. Yes; that is exactly what I am coming to. But if other countries are going to follow us either by lowering the price of their products or by further depreciation of the currency, are not we therefore tending to deflate our prices rather than inflate them?—Our prices do not reflect the full amount of the depreciation. The net result is that the consumer in Europe or the buyer in Europe would have got his wheat even more cheaply than he did.

Q. Yes. Well, now, at the same time that we raised our prices from 60 cents to 90 cents in terms of Canadian dollars, would there therefore not be a tendency to increase the production of Canadian wheat because of higher prices?—A. I assume so, yes, if it could have been.

Q. So that therefore you are putting in now a non-monetary factor which begins to work upon a monetary factor and therefore curtailing the so-called advantage which comes from our monetary action?—A. Yes.

Q. Now, as we lower the value of the Canadian dollar we are making it increasingly difficult to import goods?—A. Yes.

Q. We are adding to the difficulties of the manufacturer by making it more costly to buy his raw materials.—A. Yes.

Q. Would there not therefore follow an increase in the price of manufactured goods—there must follow an increase in the price of manufactured goods—which would deprive the farmer of his advantage?—A. Yes, that is true, except in what advantage he ultimately retains in relation to debt.

Q. Then, as far as labour is concerned, it would cut the wages of labour because of the increased cost of living?—A. The main so-called benefit, of course, is very largely dependent on the cost of labour lagging behind the increase in prices. In other words, labour is expected to pay the major portion of the shot; it is a concealed reduction in wages.

Q. A forced levy on wages?—A. Yes.

Q. Well, then, taking our history in Canada and in the United States, would this not follow: the increased difficulty in regard to standards of living so far as labour is concerned, would be followed by strikes for increased wages?—A. When the thing has happened on any material scale that has always been the experience, yes.

Q. Having deprived the farmer of his gain we then have a higher standard of labour which is again an increasing rigidity?—A. Yes, it is an increased rigidity providing the price level does not then remain steady.

Q. Now, would I be right in saying this: in a certain sense a declining dollar might be an advantage, but a declined dollar would not be?—A. Will you repeat that, Mr. Deachman?

Q. Would I be right in putting it this way: the declining value of the Canadian dollar would be an advantage; that is, it would be an advantage until the other forces caught up with it and equalized the differences; but a declined dollar, one that had come to a permanently low level, would not be

[Mr. Graham Ford Towers.]

of material advantage?—A. After those various changes had taken place you would find a situation which was not one which was an advantage to the country as a whole, although during the process some people might have got some advantage, but at the expense of others.

By Mr. Tucker:

Q. Except in debt?—A. Well, that gain they had at the expense of others; in certain circumstance justifiably so.

Q. I would question that.

The CHAIRMAN: Order.

By Mr. Tucker:

Q. My question was, you take back from the creditor what he had unjustly gained by the previous depreciation?—A. Of course, the creditor had nothing to do with the change; he is an innocent factor.

Q. He had done nothing to earn it.

By Mr. Deachman:

Q. Just one other question in regard to that. Is it not true that we pay our debts by the margin of difference between costs and selling price?—A. Certainly, so far as the individual is conerned that is true.

Q. If our costs went up as much as the selling price the gain from the increased price would be offset by the corresponding increase in costs—A. Yes, of course, if prices and costs both go up by the same percentage. If one has hoped that costs were somewhat lower than prices or than the gross income, if they both go up by the same percentage, that net remaining profit will be slightly larger.

Q. I think you stated the other day, if I recall it correctly, that, so far as Canada was conerned in the struggle for the adjustment of price levels, monetary action had gone as far as it could possibly go?—A. Had in the past gone as far as it could possibly go. Where it might go under conditions as they may be in the future, I would not care to say.

Q. It is of the past, of course, that I am speaking.—A. Yes.

Q. Take the price level of farm products in 1926 at 100. At the bottom of the depression the figure stood at $48?—A. Yes.

Q. The price level of farm products is now back to 64?—A. May I find the table that we put in?

Q. These are rough approximations.—A. Yes. In the table which appears in the minutes of the third meeting of the committee I see these figures you mention.

Q. So far as monetary action is concerned up to date the gain has only been from 48 to 64, if you assume that all the gain between 1933 and 1938 is due to monetary action?—A. The figure I have here for 1938 is 74.

Q. I am dealing with farm prices only.—A. I have only farm prices. Since the end of 1938 possibly there is a further decline, is there?

Q. The present price level is approximately 64.—A. I see.

Q. So that the gain has been a matter of only 16 points.—A. Yes.

Q. Therefore, as far as monetary action is concerned it has been limited to that extent, and if we are to return to the 1926 price level it must be from non-monetary action or from monetary action under altered conditions?—A. Yes.

Q. As far as the struggle is concerned in the future it is largely a matter of non-monetary action?—A. Yes. Of course, as I need hardly point out, monetary action even although it may affect the general level of prices does not necessarily affect the price level of certain specific groups within the whole.

Q. That was my next question, and you have answered it in advance.

The CHAIRMAN: Gentlemen, it is 1 o'clock. Do you wish to meet at the call of the chair?

Mr. LANDERYOU: I should like to make a statement, Mr. Chairman. Mr. Dunning on the floor of the house suggested that we could ask, in the Banking and Commerce committee when we had Mr. Towers and other witnesses before us, a number of questions we intended asking him. I may say frankly that the group I represent have been unable to ask the questions that they desired to ask and we wondered whether or not we could hold meetings regularly until such time as we had morning sessions, otherwise we would be compelled to discuss the question more fully on the budget and other bills coming before the house. We thought the matter could be expedited by giving us an opportunity as a group to put the questions we had in mind. If we can have regular meetings and the assurance that we will have an opportunity to ask the questions we have in mind it would expedite the work in the house.

Mr. TUCKER: I strongly uphold what Mr. Landeryou has said because I think this is the proper place to thresh these things out. That was my attitude right from the start, that we should have enough meetings that everybody who wanted to ask questions would have a chance to ask them in this committee. I strongly uphold Mr. Landeryou's request to have enough meetings to enable them to present their case, and I would urge the members of other parties to provide the necessary quorum so that they can thresh it out here. I think it is very important that that should be done.

The CHAIRMAN: Agreed. We shall meet again at the call of the chair.

(At 1.05 p.m. the committee adjourned to meet again at the call of the chair.)

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 9

TUESDAY, MAY 2, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

TUESDAY, May 2, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Cleaver, Coldwell, Deachman, Donnelly, Dubuc, Fontaine, Hill, Howard, Jaques, Lacroix *(Beauce)*, Landeryou, Leduc, Macdonald *(Brantford City)*, McGeer, Mayhew, Moore, Plaxton, Ross *(Middlesex East)*, Ross *(St. Paul's)*, Stevens, Taylor *(Nanaimo)*, Tucker, Ward, Woodsworth.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

After considering a private bill, the Committee resumed its consideration of the Report of the Bank of Canada.

Mr. Towers submitted answers to questions asked by Mr. Tucker at the previous sitting.

With respect to questions asked at the same sitting by Mr. Donnelly, Mr. Towers stated that answers would be available in a few days. In this regard, Mr. Towers directed the attention of the Committee to his oath of office.

Examination of Mr. Towers was then continued.

At 1.10 p.m., the Committee adjourned until Wednesday, May 3, at 11 o'clock a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons, Room 277,

May 2, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The chairman, Mr. W. H. Moore, presided.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

The Chairman: Gentlemen, Mr. Graham Towers is with us again this morning, and Mr. Landeryou has the floor.

Mr. Landeryou: Thank you Mr. Chairman, I have a question or two I should like to direct to Mr. Towers.

Mr. Towers: Mr. Chairman, there were two questions carried forward from last meeting which I would like to deal with. As a matter of fact, the first question asked by Mr. Tucker would not take more than five minutes to answer.

The Chairman: I think you might put them on the record and wait until Mr. Tucker comes.

Mr. Landeryou: I should like to have them read.

The Chairman: Very well, but I want it understood that Mr. Landeryou has the floor.

Mr. Towers: At the last meeting of the committee Mr. Tucker raised certain questions which I might describe very broadly as relating to the problem of unemployed factors of production.

May I say I thoroughly agree with the thought expressed by Mr. Tucker that to the extent we have unemployed labour and productive equipment in this country, a potential means of bettering our economic status is being foregone.

With reference to a solution of this problem and whether such a loss is inevitable under existing conditions, I remarked during the meeting on April 21 that "I would be the last to deny that there are possibilities in Canada, even with the handicaps which we have as compared with a country such as Germany from certain points of view. But I did try to indicate in my memorandum to-day what I thought were some of the limiting factors which are found in Canada."

Before proceeding to a discussion on this subject I believe it is essential to agree that a decline in export income due to poor crops or reduced foreign demands, means a loss to the country as a whole which can only—if at all—be offset by building up domestic industries to supply goods or services which were formerly imported and which cannot be imported when our purchasing power in other countries declines. No other course of action—monetary or non-monetary—can offset that loss to the country as a whole.

Building up industries to satisfy wants hitherto satisfied by imports, is an expensive solution—one which is only justified if the decline in exports is considered to be of more than temporary duration.

Therefore, it follows that in the case of a temporary fall in export trade—and on the basis of Mr. Tucker's earlier remarks I believe he is thinking of a temporary situation—there is no feasible way in which we can hope to prevent a loss to the country as a whole. In fairness to Mr. Tucker I do not think he suggests that under these conditions a loss can be avoided, but feels that unemployment in our domestic industries constitutes an unnecessary "doubling-up" of the necessary ill effect of a decline in exports, which could be avoided by maintaining the money income of exporters.

However, if it were possible by Mr. Tucker's proposal, to have full activity in domestic industries in the face of a decline in exports, there would be the implication that no one was adversely affected by the decline in exports. If the plan were feasible, exporters would be able to buy as much as if exports were normal and other industries would be operating at full employment to satisfy domestic demands.

I have already pointed out that it is impossible for the economy to function in this "normal" manner at a time when export income is depressed. "Normal" functioning of the economy would be in the ordinary course of things, produce a "normal" volume of imports for Canadian industries and consumers—a volume of imports which could not be paid for when export income was not "normal." I have dealt rather fully in previous memoranda with the implications of that situation.

Maintenance of activity in domestic industries would, therefore, have to be confined to those industries which do not depend upon imported materials. This limitation would automatically eliminate most of our major industries.

There would have to be restrictions placed upon the type of goods or services which the additional purchasing power in export industries might be used to buy. Otherwise a very large part of such buying would be of imported goods or goods made from imported materials.

I realize that one can point to a number of specific instances where Canadian consumers would use a larger amount of a purely Canadian commodity if they could afford it. However, I believe that such examples are deceptively simple. They do not take into consideration that additional purchasing power created to make possible such a transaction is not cancelled at the completion but remains in existence and ultimately—other things being equal—will chiefly result in an increased demand for imports and goods made from imported materials which would produce the situation to which I referred a moment ago.

In so far as the great majority of cases are concerned I would say that the depressed state of domestic industries is an unfortunate but inevitable result of low export income which forces us to curtail our demand for foreign goods, and is not an unnecessary "doubling-up" of the effects of the decline in exports.

If Canada were a relatively self-contained country such as the United States or Germany, there would be good grounds to suspect that our misfortunes were the result of ineffective domestic policy and certainly there would be much more scope to improve the situation by internal action. I believe there is a tendency to try to apply to the Canadian problem methods which have achieved a measure of success in other countries but which are of very limited usefulness under Canadian conditions.

As to the limitations and implications which various proposed methods would have in Caanda, I do not think I can add anything to what I have just said and to what I have submitted in the various memoranda which have been placed on the record at previous meetings.

If action to stimulate domestic industries were confined to the quite limited field in which I have tried to indicate that such a policy would be practical in Canada, some of the proposals which have been made would be found unsuited for that purpose. Monetary expansion, for example, tends to affect the whole economy and if adopted only for a particular purpose of this kind it would require almost infinite accompanying regulation to confine the results in the desired section of the economy.

Mr. Chairman, there were also questions asked on the occasion of the last meeting by Mr. Donnelly, supplemented in one particular by Mr. Tucker. We are preparing the material, but I am sorry to say it is not available to-day. I expect it will be available in the course of the next two or three days—by Friday at the latest, in any event. These questions involve, amongst other

things, the provision of a good many figures in regard to the Bank—figures which have not been published and which the statute and by-laws of the Bank do not provide for publishing. All of these figures will be available in the next few days, but before I come before the committee to give those figures I think I should direct the attention of the committee to section 16 of the Bank of Canada Act, which requires me to take an oath of secrecy in these terms:—

> I .... do solmenly swear that I will faithfully, truly and to the best of my judgment, skill and ability, execute and perform the duties required of me as a .... of the Bank of Canada and which properly relate to any office or position in the said bank held by me.
>
> I further solemnly swear that I will not communicate or allow to be communicated to any person not legally entitled thereto any information relating to the affairs of the bank, nor will I allow any such person to inspect or have access to any books or documents belonging to or in the possession of the bank and relating to the business of the bank.

Mr. Chairman, I will, proceed with the answers to the questions which were put to me last Friday on the assumption that, having knowledge of the oath which the statute obliged me to take, the committee still wishes me to supply the information.

By Mr. Landeryou:

Q. Mr. Towers, you will agree with me no doubt that money need have no intrinsic value?—A. That it need have no value as a commodity apart from its uses as money? Yes.

Q. And that no matter what it is made of as long as it is acceptable by the people it will function as a sound money?—A. It may be acceptable by the people because of its legal tender status even although it has gone beyond the bounds of sound money—they may be forced to accept it.

Q. They may be forced to accept it; but nevertheless it is sound money as long as it is acceptable by the people. That is what gives it the acceptance or confidence that the people have in it?—A. Not necessarily, because being legal tender it can be forced on the people. Whether it is sound money or not I should say would depend on its purchasing power in relation to commodities, relating that purchasing power to the average over a considerable period of years.

Q. Ninety-five per cent of all our volume of business is being done with what we call exchange of bank deposits—that is simply book-keeping entries in banks against which people write cheques?—A. I think that is a fair statement.

Q. Now, what really does give value to money if it is not the gold behind it, or if it is not the silver behind it or any intrinsic value in the commodity such as that—what really gives value to money?—A. It is the quantity of the money and its rate of turn-over compared with the need for money.

Q. Then the demand for money and the quantity of money really determine the value of your medium of exchange?—A. With that consideration of turn-over brought in as well.

Q. With the velocity of circulation considered?—A. Yes.

Q. If the velocity be great you would not have to have such a large quantity of money?—A. That is right.

Q. Does the volume of money have any effect upon the prices of commodities in the country?—A. The volume of money and the turn-over, yes.

Q. If there is a large amount of money, would it not have a tendency to keep down the velocity of circulation?—A. That is sometimes seen, yes.

Q. For instance, take our bank deposits: our bank deposits are somewhere in the neighbourhood of two billion, five hundred million, are they not?—A. Yes.

Q. What portion of those bank deposits do you imagine are being turned over? What portion does the velocity of circulation affect? Some of it is idle and some of it is not. But, in the United States they claim fifty-five billion on deposit and only some eleven billion dollars used to transfer goods and services in the United States?—A. I do not see how they can arrive at those figures. It would be rather difficult to arrive at them in Canada, but I could give figures of total turn-over.

Hon. Mr. STEVENS: I suggest that Mr. Towers keep his seat.

The CHAIRMAN: Yes, you do not need to rise every time, Mr. Towers.

By Mr. Landeryou:

Q. There is a possibility in addition to the fact that the bulk of bank deposits in Canada are in the hands of a very few—there are very nearly four million depositors with an average of $117 in the bank, I believe that was in 1934-35, and to-day there is a small increase in the holdings of that large group of bank depositors—but the bulk of the deposits are in the hands of the few. Now, would you suggest that the same velocity exists among the few depositors who hold that large sum or is the velocity of circulation greater among the masses?—A. I could not prove it, but I would be inclined to say that the velocity in the larger accounts is lower.

Q. Now, if there was a substantial reduction in the amount of money available in the hands of the people, if there was a substantial withdrawal of large sums of money as there was during the depression years in Canada and in the United States, would there be a tendency, would it have a tendency to lower prices?—A. It might or it might not.

Q. It did have that effect. I will refer to a statement made by a professor of economics in the Nanking university. Delivering an address to the world conference on agriculture at St. Andrews, Scotland, he declared that China was sometimes in the position of a guinea-pig, that when silver was cheap or money was cheap—they are on the silver standard in China—the prices were relatively high, and the Chinese often were considering ways and means of preventing the importation of goods from countries like the United States where they were able through mass production to produce goods cheaper than in China. Then he said that silver went up in the world markets in proportion and money became scarce and then because of its depression prices fell. Is that not true to a large extent?—A. In the extreme case such as that in China undoubtedly it is true.

Q. Now, do you think that the withdrawal of somewhere in the neighbourhood of between $700,000,000 and $900,000,000 in commercial loans in the years between 1930 and 1933—did that have any effect upon the prices in Canada?—A. May I look at those figures a moment? The decrease in public current loans between December, 1929, and June, 1934, was about $540,000,000. I would say that to the extent that that decrease was caused by lower world prices for our exports and the liquidation of stocks, that the monetary factor was not the main one responsible for the fall in prices. To the extent that there was curtailment of bank loans dictated mainly by considerations of strengthening the banks' positions, because of insufficient cash; to the extent there was any unnecessary liquidation of bank loans I agree that would be a monetary factor working on the price level.

Q. The banks called in substantial sums of money in practically every country of the world—I do not know what happened in China or Russia, to the silver value in China—but in many countries at the same time there was an expansive reduction in the amount of money in the hands of the people.—A. That is the old question as to whether falling prices which destroy the value of collateral cause a reduction in bank loans or whether the calling of bank loans causes reduction in prices. I think it is true to say that all over the

[Mr. Graham Ford Towers.]

world, or in most places in the world, there had been a tremendous expansion of credit in the years preceding 1929. Certainly that was true in North America. And a structure had been built up which collapsed as soon as the volume of lending dropped. And speaking of the volume of lending, the volume was not all in the form of lending by banks; issues of bonds or equities were much more important than bank loans; and as soon as that stopped the whole structure collapsed.

Q. You are not quite certain in your own mind whether it was the withdrawal of tremendous sums that had been loaned or the reduction of commercial loans or some non-monetary factor?—A. I say that the most important factor in that situation was this: the amount of bond issues which were being brought out at that time was enormous—I am speaking now particularly of the United States and it also applies to a certain extent in Canada. The amount of stock issues was also very large, and those were being quite largely absorbed by investors, although the great increase in call loans also had a bearing on the possibility of bringing out new issues of that size. The action of investors and a very rapid turn-over of the amount of money in existence built up a situation of apparent prosperity which went so far that it could not possibly continue, because in many directions it was unsound. When that was realized, the velocity of the money in existence suffered an extremely sharp fall, and because of the declining prices which then commenced, bank loans in many cases became impaired and a collection of bank loans on a large scale took place. Now, the trouble there rests mainly with the events of 1927-1929. Once those events took place, the remainder of the trouble was almost impossible to avoid. Now, were those events of 1927-29 an instance of over-optimism on the part of investors; where shall one place the responsibility? Once you arrived at 1929 the subsequent developments were almost inevitable for a period of time.

Q. The result of the depression was a withdrawal—the banks became frightened and they withdrew a lot of money, whether wisely or not is a question; but the facts are that they did withdraw large sums of money?—A. Or were repaid voluntarily by borrowers.

Q. Yes, or were repaid voluntarily by borrowers. There is no question but what the total amount of money in the hands of the people was reduced, is there?—A. Yes.

Q. And are there any statistics to show year by year the amount in Canada —the amount of decline in the volume of money and the number of unemployed in the corresponding years? In the United States we have these statistics, and they impressed me when I read them. This is a book I have been reading recently called "An Exposition of the Principles of Modern Monetary Science in Relation to the National Economy and the Banking System of the United States" by Robert L. Owen, former chairman of the committee on banking and currency in the United States; and he claims that unemployment is the result of monetary policy.—A. Then they ought not to have any unemployment now.

Q. I do not necessarily agree with him as to once it has happened, getting them all back to work, because we are making technical progress all the time; industry is being mechanized to a greater extent, and we are using solar energy in place of human energy and machine power in place of man power; but it is rather startling to read these suggestions showing an increase in unemployment as the volume of money declines. For instance, I will just take two years. In 1929 the price level was 95·2; the amount of cheque money in the hands of the people was $1,300,000,000; unemployment was 469,000. But when we go down to 1933, which was in the depth of the depression, the price level had fallen to 65 per cent, the cheque money to $430,000,000 and unemployment to 12,773,000. It would seem that unemployment rises and prices fall as the volume of money in the hands of the people decreases. In Canada we claim through the central bank to

have control of the issue of money and credit, to use the words of the Minister of Finance, day by day, week by week and month by month. Is there anything in the present set up of our banking system in Canada that would prevent the commercial banks from withdrawing loans as they did in the years 1929 to 1934?—A. To the extent that that reduction in loans in the 1929-1934 period arose from factors beyond the banks' control and was in effect a voluntary reduction by borrowers because of the liquidation of stocks or because of the fact that at the lower price level they needed less to finance their business, I would expect exactly the same thing to happen in the future in similar circumstances. To the extent that it represented reduction of bank loans because the banks were getting somewhat short of cash—how much that was I do not know; I do not think it was of major importance—to the extent that that caused reduction in bank loans, that need not happen again.

Q. That need not happen again; but there still is the possibility of a substantial reduction in the amount of purchasing power or the amount of money in the hands of the people through reduction of loans or for some reason or other; reason there is liable to be a reduction?—A. I believe you would have to go back of that statement and inquire why there should be a decline in prices in our major industries and, therefore, why a reduction of bank loans or a reduction in the need for borrowing. For example, if the newsprint industries had been operating, shall we say, at more or less full capacity in 1929, and on a relatively high price level, and if because of reduction in demand for newsprint abroad their shipments were greatly curtailed and the price very materially reduced, that alone, as you can understand, accounts for the reduction of a great many million dollars in bank loans. That is something which was beyond the control of the banks, and beyond the control of the newsprint industry. If that type of thing happened again, and it did in 1929-1934, it is then that I say you would obviously and inevitably have a reduction in bank loans.

Q. In order to get the reason behind the whole thing, we would have to get the reason for depressions?—A. Yes.

Q. And possibly if we get into that, everyone would have a different reason; so I do not intend to get into a discussion of the reasons for depressions. What I want to establish is that there is a possibility, under the present banking set up, for the total amount of money in the hands of the people to be reduced arbitrarily by the commercial banks?—A. Not arbitrarily.

Q. Not arbitrarily?—A. No.

Q. But there is the possibility, for a various number of reasons, of that amount being reduced?—A. Yes; if it is in the interests of the borrower to do so, or if because of the depression he need not borrow such large amounts.

Q. And when currency is depreciated—that is, when there is less purchasing power in the hands of the people—it has an effect upon prices and upon employment which makes a rather difficult situation between debtor and creditor?—A. That is true. But might I point out there that the figures which you gave were for the United States, and they draw comparison between the volume of money and employment; a comparison of the English figures would probably be interesting.

Q. I should like to have a comparison between the American figures and the English figures, and between the Canadian figures and the English figures.

Mr. Deachman: And Sweden.

Mr. Landeryou: Yes. I do not think we have the statistics. Have we the statistics completely for Canada?

Mr. Towers: I will see what we can get.

[Mr. Graham Ford Towers.]

By Mr. Landeryou:

Q. I should like to have those as well. Would you agree with me that in order to have a stable value to our money we would have to have a given quantity, considering the velocity of circulation?—A. A given quantity considering the velocity of circulation and also assuming no change in the business world which produced a non-monetary effect.

Q. There are these great fluctuations that we have to-day; I have in mind the tremendous burden that has been placed upon the debtors of western Canada, the farmers who borrowed money particularly during the war years; they bought farms and they bought machinery at high prices. They went into debt when Canada was going through a period of inflation. The world had gone through a period of inflation. The United States in one year made available $40,000,000,000 of credit for the allies. There was inflation the world over, was there not?—A. You are speaking now of war time?

Q. During the war period.—A. Yes, there was.

Q. And there was a great expansion in western Canada throughout those years. You are familiar with that?—A. Yes.

Q. Land values were high; building material was high; lumber was high and interest on money was high?—A. Yes.

Q. A condition which always develops during a period of inflation. But when the war was over, those prices began to fall and before western Canada had recovered from that inflationary period, the depression set in?—A. The depression of 1921-22.

Q. The depression of 1921-1922, and more severely in 1929 until the present?—A. Yes. Of course in the interval, the years—speaking from memory —of 1926, 1927 and 1928 again turned out to be very good.

Q. They were very good years in western Canada. As far as yield and prices were concerned, I do not think there was any dissatisfaction.—A. That is right.

Q. The farmers of western Canada find themselves now in this position: When they borrowed a dollar they could have paid it back with one bushel of wheat; but in the years 1932 and 1933 they would have had to pay a dollar back with three bushels of wheat. This unstable dollar, or as I have heard it called, this rubber dollar has worked inimically to the interests of western Canada. Do you think there is any possibility of so devising a monetary system that we might establish a stable dollar?—A. There is no possibility of establishing a stable dollar in relation to one commodity.

Q. In relation to commodities; I just used that as an illustration.—A. Yes.

Q. That affects them in relation to their condition. Their eggs were the same thing.—A. I should say in a stable world there would be a considerable possibility of doing that; but in a world such as we have had in the last ten years, a world of most extreme instability, the proposition becomes an extraordinarily difficult one.

Q. That is from the world point of view. Is it possible to establish a stable dollar for one nation that will withstand the fluctuations of money outside? Can you have an internal dollar that will remain stable if certain steps were taken?—A. There might be, theoretically, a case where variation in exchange rates—I am not talking of constant variations, but rather a variation taking place at a time when the rest of the world was moving violently in one direction or another—would increase the internal stability of currency versus commodities; although even in that case there would be no way in which the relative internal price of a particular commodity could be stabilized.

Q. Not in any particular commodity, because supply and demand is working.—A. Yes. In other words, even under those circumstances, with a considerable degree of general internal stability, you might find that a commodity which lacked demand, such as wheat, would still be relatively low in price.

By Mr. Deachman:

Q. I should like you to finish that sentence right there. Would it be advisable to do so if it could be done?—A. Under certain circumstances—if you had been on a level to which you were accustomed, if you knew that a great disruption was going to take place in the world price level and wanted to avoid that disruption or try to avoid it, with all the internal maladjustments it would create, it might be worth the effort—purely, of course, as an internal affair, preserving as great a degree of internal stability or as great a degree of stability in internal money relationships as one could.

Q. It could not be done with regard to commodities such as western Canadian wheat, could it?—A. It would not affect the relationship of certain commodities to other commodities.

By Mr. Landeryou:

Q. Which do you think has the greater effect upon prices, the supply and demand of money or the supply and demand of goods?—A. The supply of and demand for particular goods is the major influence so far as prices of those particular goods are concerned; the supply of and demand for all goods and services related to quantity of money and its velocity of circulation is the major determining factor in the general price structure.

Q. I think that will be enough for that line of questioning. I want to get into the debt structure of Canada now. Would you agree with the statement that has often been made that a young man in Canada reaching his majority is worth $18,000 to the state?—A. I have no way of checking on that, Mr. Landeryou.

Q. That statement has been made by the leader of the Conservative party. I heard R. B. Bennett make that statement himself at one time. You will agree that they are an asset to the state?—A. Yes.

Q. And an asset must be worth something: We are not going to determine the exact amount; I know how difficult it would be.

Hon. Mr. STEVENS: I might suggest it costs so much to bring about that condition.

Mr. LANDERYOU: Yes, that is a liability. But that raises another question. There is the liability of this young man to his family from the time he was born or even before he was born until he reaches his majority.

By Mr. Landeryou:

Q. What puzzles me is this: That to-day if a man has ten cows in his barn or ten pigs in his sty he has an asset. But if he has ten children in his home he has a liability.

Mr. HOWARD: Oh, no.

Mr. LANDERYOU: Some honourable member says "oh, no."

Mr. HOWARD: He might have; but he might not have.

Mr. LANDERYOU: It would depend on his income.

Mr. HOWARD: No.

Mr. LEDUC: It would depend on his intelligence.

Hon. Mr. STEVENS: Or their intelligence.

Mr. LANDERYOU: That is the position in Canada to-day.

Mr. TOWERS: Although the fathers of many of those here to-day presumably thought they had assets.

By Mr. Landeryou:

Q. They presumably are assets; they have assets in one regard or in one respect: Every young man I admit is an asset to the country. But they are a

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financial liability to their parents, whereas ten cows in the barn are a financial asset.

Hon. Mr. STEVENS: Not if you were selling milk at a loss.

By Mr. Landeryou:

Q. What is the per capita debt of Canada, the public debt—that is, municipal, provincial and federal?—A. I will make a guess at about $500.

Q. About $500. Somewhere I have heard it said anywhere up to $800.—A. In that figure of $500 I am excluding corporate and mortgage indebtedness.

Q. Yes. We will take the figure of $500.—A. All right.

Q. That is, every man, woman and child in this country born into the world carries that obligation. We are just using the figure $500, although it may be substantially more when you total it all up, that is the total of the municipal, provincial and federal debt.—A. You must remember that in a large measure that debt is owned by the Canadian people.

Q. Yes. When you say that debt is owned by the Canadian people do you mean by all the Canadian people?—A. The Canadian people in toto, yes; some have more than others, naturally. There is a question of the distribution of wealth.

Q. Can you tell me just who owns the bonds of the Dominion of Canada—the municipal, provincial and federal bonds? Are there any records kept to show what percentage of the people of Canada control those bonds?—A. I could show the amount of bonds owned by the banks which in effect are held in trust for the depositors; and as you know the distribution of deposits is shown in the annual statement to which you referred a short time ago; next, a large amount of bonds is owned by life insurance institutions held, so to speak, in trust for their policy holders. I am not very familiar with that business, and I do not know the distribution of those life insurance policies. Again, still larger—the largest amount is owned by people throughout the country, but only the Income Tax Department could speak about the distribution of those assets. I do not know.

Q. Then it would be rather difficult or more difficult to show the accumulation of assets in the hands of a few and the tremendous volume of insurance that is owned by a comparatively few, so I will deal with the million people that I know of in Canada that are unemployed.

Mr. WOODSWORTH: That is not right.

Mr. LANDERYOU: You can dispute that if you so desire.

By Mr. Landeryou:

Q. There are 1,000,000 unemployed in this country?—A. I do not think so.

The CHAIRMAN: No, on relief.

Mr. LANDERYOU: And on relief.

Mr. TOWERS: Oh, that is including all on relief.

Mr. WOODSWORTH: And dependents.

Mr. LANDERYOU: And dependents; men, women and children.

By Mr. Landeryou:

Q. I believe there is in the neighbourhood of 600,000 on direct relief or a little more than 600,000; and some 350,000 on agricultural relief; but the total is somewhere in the neighbourhood of one million men, women and children.—A. That is including agricultural relief?

Q. Yes. They have no bonds. They have no life insurance, and they have only the debt of the country bearing on them. Take, for instance, a man who is in a city with ten children and he is unemployed. They are a definite obligation to him. He must pay his 8 per cent sales tax to keep his family; and people to-day are saying all through the country, "Why, I can hardly

afford to keep my children; I cannot afford to educate them." That is all I ever hear. They will tell you, "I cannot afford this and I cannot afford that." In fact, from one end of the country to the other there are millions of people saying, "I have not got the money to complete my son's education." or, "I have not got the money to do this and I have not got the money to pay that." Children are a financial responsibility.

Mr. HOWARD: No, sir.

By Mr. Landeryou:

Q. What I am trying to get at is this: is there any way outside of borrowing or taxation that the municipal, provincial and federal authorities can procure money?—A. No.

Q. There is not other way except by borrowing or by taxation?—A. No.

Q. Well, now, I shall deal with municipalities. They have a debt of over $1,700,000,000?—A. I think it is less than that, about $1,200,000,000.

Q. About $1,200,000,000?—A. Yes.

Q. That is, their liabilities are $1,000,000,000?—A. That is their funded debt, which closely approximates the total.

By the Chairman:

Q. Is that net or gross?—A. That $1,200,000,000 would be net after sinking funds.

By Mr. Landeryou:

Q. After sinking funds?—A. And that debt, I am glad to say, is going down year by year.

By the Chairman:

Q. What about the assets?—A. They have substantial assets against that.

By Mr. Landeryou:

Q. It is going down. Are you including the amount of default in that?—A. No. Municipalities in general throughout Canada, that is, the sum total of them, reduce their debts each year and have been reducing them for some years.

Q. Does that reduction include default?—A. No, actual paying off of debts.

Q. Would you suggest that they can tax their way out of debt; is there any possibility of them taxing their way out of debt?—A. I would say, judging from experience, that any municipality which is well managed and which has the good fortune not to be in an area where economic distress is a tremendous burden, that such a municipality—I would suggest a city such as Toronto—can and has reduced its debt. If you examine the situation in Toronto during the last few years you will find it is one of those cases.

Q. We might point to Toronto. Toronto has a debt, I understand, somewhere about $169,000,000?—A. Again, I think it is less than that. Whatever it is it has been very materially reduced in the last five years.

Q. It may be reduced since I obtained the last figures. The debt structure of Montreal, Winnipeg and Vancouver, all these municipalities— —A. Why pick out some particularly unfortunate examples? On the other hand, if you look at many municipalities throughout the country you will find a great improvement in their financial position, and it is on a similar scale to that of Toronto.

Q. Do you agree with me when I say that many municipalities have deferred many capital expenditures for public works that should have been carried out; that they have been simply deferring work that should have been done?—A. I should like to be specific in making a statement like that, and yet I cannot say. One would have to examine each case.

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Q. Much of this saving has been obtained by deferring works that should have been done and would have been done during the past seven or eight years. However, I shall ask you this question again: do you believe that, considering the position of Canada to-day and the debt structure of all the municipalities across Canada, it is possible for them to borrow themselves out of debt?—A. The answer is obviously no.

Q. Then, is it possible for them to tax themselves out of debt?—A. Yes, if the volume of production in the country is sufficiently good so that an appropriate balance of receipts over expenditures can be obtained.

Q. If the volume of production is good. Now, we will just deal with the volume of production for a moment. The volume of production determines Canada's national income. What was Canada's national income in 1927? You have the figures there.—A. I have not got them here; but shall we say, for the purposes of argument, $5,000,000,000.

Q. What is Canada's national income since then? Has it been greater or less?—A. It decreased materially in later years, reached a low point, I suppose, in about 1932. I do not recall the figures, but since then it has shown an increase, although not to the figures of 1929.

Q. Not to the figures of 1929?—A. Incidentally the price level is also different as compared with 1929, so that those figures do not necessarily indicate volume.

Q. Well, now, our national income is not determined at the moment by our ability to produce?—A. But by our ability to sell.

Q. But by our ability to sell. And it is not determined by our ability to consume?—A. Our desire to consume, no.

Q. That is to say, our real desire to consume. Considering Canada as a great factory, you will agree it is only working, we will say, at approximately 70 per cent of its productive capacity?—A. I cannot be specific about that figure, but I do not think it is out of the way.

Q. That will allow for an increase of 30 per cent. We would have to find an increased market in the world or in Canada to increase Canada's national income to such a position that we could tax ourselves as municipalities out of debt?—A. Well, I would not even like to use a figure of 100 per cent capacity, because granted sufficient demand, I think the capacity could be greatly increased.

Q. That 100 per cent is not a fixed amount? It would change and vary?—Yes.

By Mr. Ward:

Q. Is there any difference between the municipality and the individual farmer?

Mr. Landeryou: There would be a difference between the municipality and the individual farmer.

Mr. Ward: Let us get that clear.

The Chairman: Mr. Ward, the reporter cannot hear you.

Mr. Ward: Mr. Landeryou is labouring this question as to whether the municipality can tax itself out of debt. Well, now, there is only one way an individual can get out of debt and that is by paying his debts. If the municipality finds it must borrow at times to supplement its income, that is not unusual; but in the aggregate, as Mr. Towers has pointed out, they are reducing their debts.

By Mr. Landeryou:

Q. I am glad to hear that. Since confederation in 1867 Canada has gone progressively into debt as my hon. friend suggested the farmers have. Now, privately, municipally, provincially and federally, there has been a yearly increase since 1867.—A. And a yearly increase in most of that time in our

equipment, our facilities, our roads and buildings, the whole structure of the country.

Q. The whole country was built up as we went into debt?—A. And, of course, that debt in the major portion is owned by our own people; so that the debt is represented by the assets which we see around the country.

Q. I am not going to disagree with that. I want to establish before I am through whether this debt creating system is a good system or whether we should have something else. I want to find out whether or not we can pay our debts. I am not objecting to it if the nation desires to go ahead with this system; but starting with confederation this country was developed. We have created a major empire out of the wilderness. Municipally we have borrowed millions of dollars to develop municipalities and provide the people with water and sewerage, sidewalks and street cars, and other such works. At the same time, provincially they were borrowing millions and millions of dollars to build highways. I know in the province of Alberta we borrowed some $76,000,000 in order to provide the people with market roads, millions more to build schools, millions more to build bridges and millions more for telephone services and for provincial railroads in the various provinces of Canada that have since been operated or turned over to the dominion government railroad system. And as we developed this country we expanded our debt. You say now the people of Canada own that debt?—A. In large measure, yes.

Q. Now, I ask you whether it is possible provincially, having in mind the way we have operated in the past, to borrow ourselves or tax ourselves out of debt in this country? It is not possible to borrow ourselves out of debt; is it possible to tax ourselves out of debt provincially?—A. I would say it would be, in individual cases, but there would be no point in doing it or thinking of doing it for the country as a whole. If one had in mind, for example, the corporate debt, there is a debt which leaves an asset in the form of equipment, and certain individuals in the country own that asset either as equity holders or as bond holders. There is nothing wrong or bad or burdensome about that debt.

Q. There is nothing wrong or bad or burdensome about it? Well, we will deal with the national debt. Do you think it is possible for the dominion of Canada to tax itself out of debt?—A. In order to arrive at a situation where the taxation of a country is substantially in excess of the expenditures and debt is being reduced, you must have a high level of activity. It is also probable in that case that you will have a keen demand for funds for capital development. By your taxation you are taking funds from the people as a whole and using these funds to repay the debt. But the people who previously held the debt and to whose hands these funds go, will, as soon as they receive them, use them for the purchase of fresh bond issues, fresh stock issues or whatever it might be, for purposes of capital development; otherwise the debt reduction would be of an extraordinarily deflationary character.

Q. Do you place any limit upon the ability of the people of Canada to carry public debt, that is municipally, provincially and federally? Is there any limit beyond which it would be impossible to go?—A. One needs to know the circumstances of the time in order to attempt to get a limit, and even in that case I frankly admit you cannot specify the figure. If the country was twice as large in respect to numbers of population, three times as large in respect to productive equipment, I would say debt could be higher.

Q. Do you think the present is in the form of assets that belong to the whole of the people— —A. It is something that the people owe themselves, but when I say that, of course, the question of distribution of the asset also comes to mind.

Mr. Deachman: I should like to ask Mr. Landeryou a question right there with regard to our national debt in Canada. It represents practically $3,000,000,000?

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Mr. LANDERYOU: Yes.

Mr. DEACHMAN: There are $135,000,000 of an interest charge approximately, and the debt you say is owned by a few. The interest upon the debt is paid by the income tax which is paid by the few, the very rich. Does not one offset the other?

Mr. LANDERYOU: That makes the position all the worse. You say the rich pay the income tax, and it goes back to the rich. It is just taking money from one pocket and putting in into the other.

Mr. DEACHMAN: They loan the money, but you take it back from them in tax. I cannot see that they gain very much from that transaction.

Mr. TUCKER: What about the sales tax and the tariff?

Mr. LANDERYOU: Your argument, I imagine, is this: the rich pay the income tax to pay the interest on the bonds that they own.

Mr. DEACHMAN: Yes. In that case they are not gainers from the process.

Mr. LANDERYOU: I do not see any sense in it.

Mr. DEACHMAN: They are paying the interest on these debts. We had no income tax prior to the war. Beginning with the war we imposed income tax. As the debts grew it fell upon the rich and they paid it. They are not struggling very hard to pay the national debt.

Mr. LANDERYOU: I know a lot of people who are struggling very hard to pay their debts in Canada.

Mr. DEACHMAN: I agree with that in regard to debts, but not in regard to that one.

Mr. LANDERYOU: Let us go back.

By Mr. Landeryou:

Q. What was the national debt of Canada in 1927? Can you give me the figures for 1927 and 1937, and the revenue of the dominion government from 1927 to 1937?—A. I think I have that figure here.

The CHAIRMAN: Have you the figures, Mr. Landeryou?

Mr. LANDERYOU: No, I have not the figures unfortunately. I had the figures but I have not them here with me now.

Hon. Mr. STEVENS: I have the figures for 1929 here.

Mr. LANDERYOU: That will be fine.

By Mr. Landeryou:

Q. In 1929 the dominion direct debt was $2,325,000,000 and in 1938 $3,281,000,000, very nearly a billion dollars increase?—A. Yes.

Q. Is not that right?—A. I imagine it is; it seems to be right according to my memory.

Q. In 1929, if the figures I have here are correct, the national revenue was $460,150,000, but it went down in 1933 under a Conservative administration. In 1933 the taxes collected from the Canadian people were only $311,120,000, but it has gone up until in 1938 it was $515,693,000, or an increase of over $200,000,000 as compared with the year 1933. Therefore in five years there has been an increase, and mostly under the Liberal administration, of over $200,000,000 in taxation in this country, and at the same time the national debt has increased by hundreds of millions of dollars. The people of this country who have to pay radio taxes and all those other taxes find it a burden on them. I know I own none of Canada's national debt; I have no bonds. I know there are many people in Canada who own no bonds of the Canadian government.—A. Of course, to the extent that taxation or borrowing is associated with any particular administration, I naturally—I associate it with business rather than

with anything else. It is, I suppose, fair to say that all the taxes and the proceeds of the borrowings were spent on the Canadian people.

Q. Well, I am not questioning that; I know it goes back to some of the Canadian people. My hon. friend Bob Deachman suggested that $135,000,000 of this is paid in the form of income tax collected by the administration to which he belongs. Now, I have a statement here that I should like to read to Mr. Towers in respect to this matter of borrowing ourselves out of debt and taxing our way to prosperity. It appears on page 40 of the evidence that was given before the Senate banking and commerce committee of the United States, and reads as follows:—

> When the Treasury sells baby bonds to small demand bank depositors, it withdraws such demand deposits. The proceeds of the sale of the baby bonds become dormant accounts until expended by the government. When the government sells its bonds to the citizens, it has the same effect of temporary contraction.
>
> When it sells its bonds to the banks and the banks retain the bonds, the volume of demand deposits is increased until the bonds are paid off. When the bonds are paid off they are paid off through taxes collected by the government from demand deposits. And, therefore, without any further expansion of the demand bank deposits, would reduce demand bank deposits to zero and cause universal bankruptcy.

That statement was made by Robert L. Owen, former chairman, committee on banking and currency, United States Senate.—A. Yes. He made the assumption there "without any further expansion of the demand bank deposits." In other words, assuming that some other factor was not working to increase bank deposits. Of course, that assumption is completely unrealistic, because government debts certainly would not be paid off except in a time of prosperity. At such a time you would find increasing bank loans and other things motivating expansion. He is assuming a world which is not our world.

Q. Well, it seems rather strange, Mr. Towers, that since confederation there has been a rapid increase in private and public debt.—A. I think the thing to inquire there is, has there been an increase in Canadian assets during that time, and if we can agree—

Q. What good are assets if we cannot use them?—A. Have we more roads than we can use?

Q. We cannot use them.—A. I thought we were using them; there are a million or more automobiles running over our roads each day.

Q. I know; I should like to see more of them.—A. Ah, so would I.

Q. I should like to find out if there is not some way of making those facilities available to more and more people in Canada.—A. Of course, I thought the suggestion was that we had done very badly since confederation. I should think we have done pretty well.

Q. I think we have done pretty well in building up Canada. We have established wonderful institutions; we have built up great cities and we have built up industries in Canada which are flourishing, though at the moment they are working below capacity production. I am not questioning that.—A. Yes.

Q. The whole structure has been built up on debt.—A. Which in turn is an asset of the people.

Q. Which in turn is an asset of the people, as you say, but very few of the people. Now, I want to get this question across once more. Can we hope ever to tax the people of Canada sufficiently to retire the debts, or must we continue to go progressively into debt, although the debt charges may not increase because of lower rates of interest?—A. That debt is an asset of the Canadian people. Now, let me say, I am speaking of public, private and all kinds of debt; what would be the object of repaying it?

[Mr. Graham Ford Towers.]

Q. Well, that is what— A. Speaking of the thing as a whole. Now, there may be and there has been, an object in repaying debts so far as one individual entity is concerned; but as it is repaid to the holders of the debt one must assume that they are using that money for fresh enterprises, involving fresh debts and fresh assets; so that all I can say would be this, that in a country where the sum total of public and private debt was decreasing, you have a country which is going backward and which is becoming more poverty-stricken. Generally speaking, in a country where you find there is no public and private debt, you have a country resembling darkest Africa; there is nothing else.

Q. As we have gone progressively into debt and as there have been wide fluctuations in the volume of the amount of money in the hands of the people, and as there has been a very unstable period of borrowing in the dominion of Canada which has worked, for example, to the interests of debtors in many cases, and the experience— A. Of course, if I may interrupt, it worked greatly in the favour of debtors from 1914 until 1921, not very much on balance, as I recall it, against debtors from that time until the 1929 period. That working against debtors which you mention has taken place since 1929, speaking from memory, but in general in favour of debtors between 1890 and 1929.

Q. Here is the position. At one time I was taking part in a survey in the province of Alberta and I had occasion to discuss matters with many farmers in that province and they cited many many cases where the farmer had purchased his farm, say, at $10,000 and had borrowed from the banks a small sum of money—$1,000 or $2,000—and had developed his little farm, paid back during the good years his interest and part of his principal, and then along came the depression of 1921-22, and along came some other monetary factor such as the embargo on cattle, and prices dropped and he was unable to meet his obligations; but he went on paying and paying until he had paid back in interest and principal as much as $15,000 and he still owed $7,000 or $8,000 in mortgages to his creditors. Now, that takes place in thousands and thousands of cases, not only in the province of Alberta but throughout Canada. Then I have talked to those who have been in control of municipalities, and they have told me that they have built concrete sidewalks and highways and put in sewer systems and put in telephone systems and so forth; the highway has been worn out and the municipality has paid on ever since it was built—paid for it over and over again—but the highway is worn out and they now cannot borrow money to build a new one.—A. Yes. I know many examples of improvident municipal financing, but that is not the case in all sections of the country.

Q. No, but it is the case in a wide section of the country.—A. Well, there is the question of bad management.

Q. You say it is unwise financial management? How otherwise, not being able to create money themselves, could they do it? The only way municipalities in western Canada secure this money, or any other municipality as far as that is concerned, is either through taxation of the people or through borrowing?—A. The people wanted certain things which the municipality naturally could not afford to provide from taxation in any one year. The municipality, therefore, asked other people who had goods and power to command labour at their disposal to lend them to the municipality, to provide a certain asset for the municipality in the form of, shall be say, a pavement.

Q. I cannot agree with you.—A. Now, I think it would have been possible for that municipality to say: "We will pay these debts back during the lifetime of the assets which we have invested the money in."

Mr. Howard: Certainly.

By Mr. Landeryou:

Q. Do you believe it is possible under the debt creating system to borrow money and pay it back by setting aside a sinking fund sufficient to retire the debt?—A. I can show you many examples of it.

Q. Why has that principle not been pursued by the Federal government? Why was it that the Federal government which has been given control over banking and the issue of currency and with wide powers of taxation—why has it been their experience that they have been unable to set aside a sinking fund sufficient to retire the debt. Not only in Canada but in every other country of the world debts are increasing and they have never been able to set aside sinking funds or reserves sufficient to retire the debt in a measurable length of time?—A. One would have to inquire there whether those countries were growing to an extent which did not increase the real burden of debt, whether those countries had certain responsibilities versus their people which they thought could better be met first of all by an increase in debt and later by increased taxation—whether they considered that preferable to keeping the debt down.

Q. You suggest that these countries have been pursuing an unwise financial policy?—A. Not necessarily.

Q. If they have not set aside reserves to pay it off in a measurable period of time. I directed this question to the Minister of Finance. I asked him whether he had any plan in mind which if pursued would pay off Canada's national debt in a period of thirty or fifty or one hundred years and, if so, how would this policy differ from the policies pursued during the past thirty years. I could have said since the depression. The answer was that this was a matter of government policy. Now, do you think it is possible for Canada to devise a policy wherein it would be possible to retire Canada's national debt in a period of fifty years, and, if so, do you think it is advisable?—A. I should say that to visualize the retirement of the national debt within fifty years one would have to assume a condition of tremendous development of the country to make it possible to secure from the people a sufficient amount in taxes to repay the debt holders, because one would also have to assume that those debt holders were going to use the money on the great development which was taking place. Theoretically under those conditions, one could visualize a substantial reduction in the debt, but life being what it is, and in view of the great development which would be occurring at the time, I conceive that there would be many demands on the government to increase its services and its equipment around the country. I would be inclined to think that the reduction might be substantial, but by no means the whole thing.

Q. This increased production that you mention would have to take place to increase Canada's national income to such an extent that the taxes would be sufficient to retire the debts. Now, could that take place without industry itself going in debt, without an increase in private indebtedness to the country?—A. An increase in private indebtedness if the funds are soundly invested as we assume they would be, is a sign of prosperity.

Q. The retirement of those loans to industry would reduce the amount of money available?—A. The retirement of loans to industry? Industry would probably be increasing its loans at that time.

Q. If we taxed those loans that were given to industry to pay for Canada's national debt—.—A. I do not quite follow that.

Q. I will put it this way. We are going to increase Canada's production so that the national income will be sufficient to tax the people to a greater extent, but I suggested to you that that increased production would come around through increased loans to private industry?—A. By individuals.

Q. Yes. And you stated that that would be all right, and I agree under the system that it would be all right; but those loans must be repaid or bank-

ruptcy will follow in industry.—A. No, I would say they would be long term loans.

Q. Long term loans. That would increase those loans to industry, would increase demand deposits or deposits?—A. No.

Q. There would be no necessary increase? No deposits of money on loans? —A. No, not those loans by individuals, buying bonds and shares and so forth of the companies concerned.

Q. You believe there is enough private capital at the moment to allow for expansion of industry without going further in debt to the banking system?—A. I would say there is, yes. In the circumstances you mention the growing volume of production would increase the savings of the people which they have available for investment. Increases in equipment would go pari passu with the improvement in production. I think that under those circumstances there would also be a tendency for the total of bank deposits and bank loans and investments to increase as the general production of the country grew. I do not suggest, however, that there would be an increase proportionate to the total increase in production, because I think under the circumstances the velocity of circulation would increase.

Q. Let us deal with the situation—

Mr. DEACHMAN: I would like to have an answer from Mr. Landeryou to a very simple question. He has been dealing with the debt situation. I would like to know how, in the town of Olds or High River, they could get these assets of roads and so forth without a debt—that is, under your system?

Mr. LANDERYOU: I am not advocating any system at the moment; I am dealing with the—

Mr. DEACHMAN: You have not got an alternative?

Mr. LANDERYOU: Yes, I have an alternative, and I hope to deal with it before we close.

By Mr. Landeryou:

Q. Now, there is at the present moment in Canada approximately two billion, five hundred million in bank deposits?—A. Yes, that is right.

Q. How are those bank deposits created in the first place?—A. To the extent of about $250,000,000 by issue of legal tender cash; to the extent of the balance they are there by reason of the fact that the banks have assets in bonds and in loans to individuals.

Q. Yes. Now, when the government goes to a bank—I am asking these questions because in various sections of Canada there are many divergent opinion as to the operation of banks—for instance a number of people imagine and have imagined for years that bank deposits were backed up by legal tender and that the legal tender was backed up by gold, and that the banks used people's savings to purchase those securities. Now, I intend to ask a few questions along this line. When a government goes to a bank and borrows $1,000,000 by presenting $1,000,000 in bonds to the bank, does the bank use the people's savings, the people's savings that are in the bank at the time to purchase this million dollar bond?—A. It cannot use the people's savings which are in the bank at the time because those savings are a liability of the banks, and of course, you cannot use a liability to purchase anything.

Q. Quite right. I am glad to hear you say that.—A. What would happen is that the bank under those circumstances would acquire an asset in the form of a government bond and also raise a liability in the form of an equal amount. In other words, a demand deposit owned by the government. The government would then spend that money and you would find that it moved from the government account into the accounts of various individuals, leaving the sum total of deposits the same as it was before, but the ownership would be changed. A fair proportion, judging by experience, would appear in the savings accounts of

individuals if they chose to leave those savings with the bank. In that case the bank can retain the government bond which it bought originally. If they wish to withdraw the savings, that is another story.

Q. Now, if the government went to the bank with $1,000,000 in bonds there would be an increase of $1,000,000 in the amount of money in the hands of the people in the form of deposits?—A. Assuming that no other change had taken place in the bank's position at that time, yes.

Q. In other words, when the $1,000,000 worth of bonds is presented to the bank a million dollars of new money or the equivalent is created?—A. Again assuming that there is no decrease in its other investments or loans.

Q. I mean at the time, at the moment.—A. Yes.

Q. It is a fact that a million dollars of new money is created?—A. That is right. Of course, governments should not always go to banks in that connection; they should sell their bonds to investors.

Q. Yes. Now, the same thing holds true when the municipality or the province goes to a bank?—A. Or an individual borrower.

Q. Or when a private person goes to a bank.—A. Yes.

Q. I am asking this question for this reason: I was discussing this matter with a banker who has had twenty years' experience with banks and I said, "supposing I wanted to borrow $100 in Western Canada from a bank and to purchase $100 worth of wheat for spring seeding, what would I do?" He said, "well, it is done in this way: an individual in Eastern Canada, we will say, has an income of $20 a week and he spends $15 of it and puts $5 of it in the bank, and suppose there are twenty others who do the same thing, that gives the bank $100 of deposits, and because the bank in Ontario has $100 of deposits the bankers can loan me that deposit in Western Canada to put in my seed wheat." Is that a correct statement?—A. I think it is a rather involved one.

Q. It is rather involved. I want you, however, to answer it as fairly as you did my first question. Is it a true statement?—A. I think it is perfectly true in the eyes of the individual man who is operating a branch; considering the banking system as a whole it is not a proper way to regard it.

Q. What is the proper way? Is the proper way this, that when I borrow $100 from the bank as a private citizen the bank makes a book-keeping entry and there is a $100 increase in the deposits of that bank, in the total deposits of that bank?—A. Yes.

Q. And the depositor's funds that are in the banks do not support me to-day?—A. Oh, yes, they do.

Q. I have to support my own with my own security; it is my security, it is not the depositors' liability, is it?—A. It is your liability to the bank and the bank in turn has a liability to the depositors. Perhaps one might say in that case that the bank acts as a go-between the depositors and the borrower.

Q. At the present time in Canada there is in the bank portfolios $1,400,000,000 in bonds?—A. Yes.

Q. Now, I asked you a question some time ago as to whether it was possible to tax your way out of debt. There are $1,400,000,000 of bonds in the bank portfolios, and those bonds are assets of the bank, they are liabilities of the people of Canada as a whole, but the people as well have $1,400,000,000 on deposits which is their asset and the liability to the bank?—A. Yes.

Q. When the government taxes people the money must come from the depositors in the banks?—A. From production.

Q. It must come in the form—not from production, it comes from the money the people actually have. We know that it cannot be paid in production because we have in mind the case of the farmer who broke a banker's window and shovelled in two or three bushels of wheat before he was caught. He tried to pay off with goods and was arrested. You have to pay in money and not in production.—A. You try to produce goods with which to get the money.

[Mr. Graham Ford Towers.]

Q. Yes; but you do not always get the money when you produce the goods. You know there is stored up wealth that people cannot buy to-day; they do not produce money.—A. I would say that the volume of production in Canada is very substantial. We would like it to be larger.

Q. Would you say that money comes into existence because people produce?—A. New money? Not necessarily, no. I would say that people produce and exchange goods, and they use money to effect those transactions.

Q. Coming back again, will you agree that there is $1,400,000,000 on deposits that are assets of the people and liabilities of the bank, and that if the government wished to pay the bank off—there is $750,000,000 coming due now and the government is borrowing a sum totalling $600,000,000— —A. I think that is the general borrowing authority; there is no such amount coming due.

Q. There is over $600,000,000 for this coming year.—A. I do not recall that figure.

Hon. Mr. STEVENS: There is a refunding figure; it is a little high.

By Mr. Landeryou:

Q. I am using that as an illustration.—A. Yes.

Q. If the government wished to pay off the bank loan—that is, retire this $1,400,000,000—at the moment they would have to tax $1,400,000,000 away from the people; is that not right?—A. Yes.

Q. If they taxed $1,400,000,000 away from the people— —A. —to pay it back to the people?

Q. To pay it back to the banks. If those bonds were falling due in a period of two years they would have to tax, they would reveal a reduction in the total bank deposits of an equivalent amount, reducing the total deposits to $1,100,000,000?—A. Provided that the banks did not buy any fresh assets from the people, yes; did not make any fresh loans or buy additional bonds.

Q. Yes. They would be going into debt under another heading, whether municipal, provincial or private; but I want to confine it to this position.—A. Yes.

Q. The banks would be paid off. Now, the banks would have $1,400,000,000 in cash and the government would have the $1,400,000,000 in bonds?—A. Oh, I do not think—

Q. And there would be no liabilities?—A. I do not think the banks would have that $1,400,000,000 in cash under the proposal you mention. I think your assumption was that the bonds were paid out of taxation, so that the bank's assets will have gone down $1,400,000,000. They would not take in more cash and deposits would have gone down $1,400,000,000.

Q. The money would be destroyed with taxes over and over again? I cannot understand your answer. We have $1,400,000,000 in the banks?—A. Yes.

Q. Now, we are going to tax the people, because under the proposition I am trying to work out we are going to retire those bonds.—A. Yes.

Q. At the moment there is $2,500,000,000 bank deposits?—A. Yes.

Q. And we are going to tax people $1,400,000,000 to retire the bonds?—A. Yes. I think I can finish that in a way which will be clearer than before. In the process of taxation money is placed in the governments's own banking account from the banking accounts of individuals across the country, so that the $1,400,000,000 in these circumstances comes from the deposits of individuals into the dominion government's deposit with the banks. At the end of the taxation period the dominion government has a balance with the chartered banks of $1,400,000,000; the banks still at that moment have the $1,400,000,000 in government securities, so that the government gives the banks a cheque for $1,400,000,000, extinguishing the deposits and removing the bonds.

Q. What happens to the cheque?—A. The cheque is charged against the government deposits, extinguishing the deposits.

Q. It belongs to the bank?—A. The banks in return for the cheque have given assets in the form of $1,400,000,000 bonds to the dominion government.

Q. Not any liabilities?—A. No.

Q. What happens to the cheque?—A. The cheque is in favour of the bank, but drawn against the government deposits. So that what happens is, the assets of the bank come down $1,400,000,000, because they have sold the bonds to the government; their liabilities come down $1,400,000,000 because the government has used that amount to repay the bank.

Q. What has happened to the $1,400,000,000 in the form of a cheque that comes to the bank?—A. The cheque is drawn on the government account in the bank.

Q. Is it cancelled by the bank?—A. Well, naturally.

Q. Well, then, that much money goes out of existence?—A. Yes.

Q. So that if the government was to tax the people in that way the only way they could secure the tax is to make that amount of money available in the hands of the people and most of it would come from demand deposits?—A. They could only tax, of course, on that scale, if the production of the country was sufficient to enable them to do so.

Mr. Dubuc: If the government by some means would tax the $1,400,000,000 so that they could buy the bonds that are in the hands of the bank, then the depositors would have to give a cheque out of their bank deposits to transfer it to the government and there would only remain $1,100,000,000 on deposit—

By Mr. Landeryou:

Q. In other words, to tax the people to pay off these bonds would in these circumstances destroy money and bankrupt the nation?

Mr. Dubuc: Destroy the assets of the depositors.

Mr. Landeryou: Destroy the assets of the depositors.

Mr. Towers: In the circumstances you mention and linking it only to the bonds of the banks, bonds already held by the banks, it would be an impossible situation, of course. If the degree of production and prosperity in the country was high enough to make it possible for the government reasonably to collect such taxation you would find in effect that the commercial loans of the banks, and their other assets, were on their way up at that time, and that in all probability the total of deposits would be increased rather than reduced. Of course, to visualize a sudden move of that kind, a sudden taxation in one year of an extra $1,400,000,000, is visualizing something which simply could not happen.

By Mr. Landeryou:

Q. It just could not happen because it would bankrupt the whole nation and destroy the assets of the people?—A. The transfer would dislocate our whole economic system.

Q. It would destroy everything?—A. Yes.

Q. That is why I am suggesting to you it is absolutely impossible for the citizens of Canada, municipal, provincial or federal, ever to imagine that they can borrow themselves out of debt or tax themselves out of debt.—A. I thought we had left the question of borrowing themselves out of debt aside, because it is a contradiction in terms.

Q. Yes, it is. I couple them together because we can only borrow or tax.—A. But having in mind that the debt is owned in large measure by the Canadian people, whatever reduction in debt there is simply involves a transfer. In such circumstances that transfer would be taking place when the money which is repaid by the people can be usefully used in some other form. The transfer then would not be harmful. It is only in these circumstances that you can have a reduction in governmental debt.

[Mr. Graham Ford Towers.]

Q. Now, I am going to leave that because I myself am perfectly satisfied debt will have to increase under the system that we have. Judging from experience in the past we can never hope to get out of debt with the present debt-creating money system.—A. May I say under these circumstances, would not one expect to find that a country which had no debt was an extremely prosperous one?

Q. I would say that a country which had no debt would be extremely prosperous.—A. Well, I know many countries that have no debt, or very few debts, and they are extremely poverty-stricken.

Q. That is because they have not seen fit to enter into this debt-creating money system?—A. The countries that I know of have remained poverty-stricken.

Q. I am visualizing the mind of man devising a money system that would not necessitate the rapid increase in debt and would prevent the establishment of unrepayable debt that is such a burden upon the Dominion of Canada to-day. After we have, as I said, carved an empire out of the wilderness, built our railroads and established our great industries, yet we find ourselves unable to use those railroads and unable to use the industries to the utmost and unable to transfer the goods and services that we have in this country.—A. I could not make any comment on that proposal because I have never seen a coherent exposition of it.

Q. I shall deal with it a little before I am finished; but there is no question about that. Since the Bank of Canada was created we have what is known as an easy money system. Is that correct? Would you define it as easy money? —A. Yes, I would.

Q. They use the term "expansionist policy" rather than an inflationary policy.—A. I would not even say that; I would say it even has the seeds of inflation.

Q. Can you give me the effect upon Canada's economy as a whole of this easy money policy? For instance, has it resulted in the reduction of taxes in this country, municipally, provincially or federally?—A. It has meant that taxes are less than they would otherwise have had to be.

Q. Less in total amount?—A. Yes.

Q. Well, the taxes of the dominion of Canada have increased year by year.—A. I say less than they would otherwise have had to be.

Q. Less than they otherwise would have to be; but there has been an increase in taxes under the easy money policy pursued by the present administration, in view of the fact that the expenditures for material have increased, and there has been an increase in debt under this easy money policy?—A. Yes.

Q. An increase in Canada's national debt. Has there been any increase in the total debt carrying charges in the past five years?—A. My recollection is there has not been. They are down from what they were five years ago.

Q. Has there been any substantial increase in bank deposits, in the total number of bank deposits?—A. The total amount of bank deposits?

Q. The total number of bank deposits.—A. That figure I have not here; I can get it.

Q. What was the increase in the total amount of bank deposits?—A. Between what years?

Q. Between the years 1935 and 1938, under the easy money policy.—A. On March 31, 1935,—that is just a couple of weeks after we started business—the Canadian bank deposits were $2,034,000,000. On December 31, 1938, they were $2,498,000,000, an increase in the meantime of $464,000,000.

Q. $464,000,000—

Mr. Coldwell: The number of depositors?

Mr. Towers: The number of depositors? I cannot give you exactly the same dates, but taking October 31, 1934, the number of demand deposit accounts was 627,000; that is the number of individual accounts. One indi-

vidual may have had more than one account, of course. On October 31, 1938, the number was 670,000.

By Mr. Landeryou:

Q. Not a very great increase?—A. An increase of about 10 per cent. In notice deposits, saving deposits, so-called, the number of depositors in October, 1934, was 4,043,000; in October, 1938, 4,123,000 accounts.

Q. Is that an increase?—A. That is an increase of 80,000 accounts during that period, or roughly 2 per cent.

By Mr. Tucker:

Q. Just along that line, have you made any estimate at all of the actual number of people that represents? There is an estimate that there are 4,000,000 Canadian depositors with accounts in banks, and it has always been a mystery to me that that figure has been left without any attempt to indicate how many people that really represents. It seems to me that the fact it has been left like that indicates intention on the part of the banks.—A. Well, I hesitate always to assume that the other man has something machiavellian in his mind; but I do not know the extent of doubling up involved in the figures.

Q. They could have found it out before this?—A. They could.

Q. It serves a very important purpose to say there are 4,000,000 Canadians who have accounts in the banks.—A. They make this return by regulation of the Dominion government, and if there were the form of return you suggest it would involve, of course, an absolutely enormous amount of work. Apart from any Machiavellian intention on their part I can well understand they would not embark on the work unless they had to.

Q. I can understand the Machiavellian intention too.—A. I have roamed around the world for 25 years, and I still believe the majority of people are honest, although I have dealt with a number of crooks.

Q. Why have they used these figures and said there are 4,000,000— —A. They do not use them.

Q. I have seen it advertised.—A. The Dominion government told them to make out these figures in this way.

Q. They use these figures in advertising, and it is most ridiculous.—A. That is another way to look at it.

By Mr. Coldwell:

Q. Have you the average amount of these accounts?

Mr. LANDERYOU: I have them here; I was going to refer to that.

Mr. TOWERS: I have the total amounts but I have not got them worked out in averages.

By Mr. Landeryou:

Q. I have a statement here made by the banks in respect to the number of bank depositors; the total amount of deposits and the average, and they give them out in this way. They say there are 4,000,000 depositors having money in the banks, and they give a total amount of over $2,000,000,000 and they give an average of $450. In other words, they say there are over 4,000,000 depositors with the Canadian chartered banks, having an average deposit of $450; but it does not work out that way. I think that is the point that is in the minds of the members of the committee. You will find, upon analysis of these figures that there are some 3,000,000 with deposits of less than $1,000. I believe you have the figures there, Mr. Towers, if you look them up.—A. I have an analysis of the deposits, and I see there are 3,797,000 deposits of $1,000 or less.

[Mr. Graham Ford Towers.]

Q. That is rather misleading, too, because I think that should give an average of about \$117, should it not?—A. \$452,000,000 is the dollar amount in that category, which is, as you say, something in the neighbourhood of \$117.

Q. And the banks pay $1\frac{1}{2}$ per cent to their depositors?—A. Yes.

Q. And it averages out about 1 per cent because it is only paid on the lowest deposit or lowest monthly deposit rather?—A. That average of 1 per cent on their deposits is obtained through including also demand deposits; so it is an average of 1 per cent on the whole \$2,500,000,000.

Q. It is a very small amount?—A. Not so small.

Q. That very small amount goes to the great bulk of depositors who have an average of \$117, but to-day I understand it is a little better than that, \$124 or \$125, since the easy money policy came in.—A. Yes; I suppose what they get in interest would be about \$5,000,000 a year odd.

Q. I worked it out at one time and giving it from memory, as I have not the figures with me, I would say that about 96 per cent of the total depositors own approximately 24 per cent of the total deposits.

The CHAIRMAN: Corporations and companies?

Mr. LANDERYOU: 96 per cent of the total depositors control 24 per cent only of the total deposits.

The CHAIRMAN: Are you taking into account the number of shareholders in the corporations that deposit?

Mr. LANDERYOU: No, I am just taking the figures that were given in the Canada Year Book in 1938 showing the number of bank depositors and the amount of money on deposit.

Mr. TOWERS: Quite so.

By Mr. Landeryou:

Q. I am correct in that?—A. I would say, just working it out roughly here, that about 92 per cent have 27 per cent, or something like that.

Q. 92 per cent have 27 per cent?—A. Approximately.

Q. That would mean that 8 per cent of the total depositors hold 73 per cent of the total deposits?—A. Including corporations.

Q. Including corporations?—A. Yes.

Q. They would be receiving a substantial sum in the form of interest paid on deposits. Now, are the banks under any legal obligation to pay interest on deposits?—A. No; they can alter it from time to time, depending on circumstances.

Q. They can arbitrarily reduce it, as they have done?—A. Subject always to the right of the depositor to withdraw, yes.

Q. They seem to be subject only to their own laws. There seems to be very little legal restriction on the operators of the bank?

The CHAIRMAN: That is our fault, if it is true, as we revise their act.

Mr. LANDERYOU: We have that power every ten years.

By Mr. Landeryou:

Q. To what use do the banks put the people's deposits?—A. The asset side of the banks' balance sheets will, of course, show that.

Q. Then, I shall ask one direct question because I think this matter should be cleared up a little more quickly. Banks do not loan the people's deposits; is that a correct statement?—A. It should not be put in quite that way. The banks have on the asset side of their balance sheet investments in bonds and loans and so forth which represent an asset against their liability to depositors. In a sense, they are a go-between. You may owe the bank \$100. If one chose to earmark some \$100 in a deposit account against that loan, then you might find that in effect you owed \$100 to Tom Smith, living in Halifax. But it would be far too

complicated to try to carry on business in that way. The banks are a go-between, so that their assets in the form of investments and loans cannot be sensibly larger than the amount of their liabilities to depositors.

Q. Well, that is banking practice. They are under no obligation to confine themselves to that?—A. Indeed they are because if they do not—it is impossible for them to do anything else.

Q. It is not impossible for the banking system, but every bank loan creates a liability, is that what you mean?—A. Well, it must, because they cannot acquire assets without creating liabilities. They cannot produce assets out of thin air.

Q. They cannot create assets out of thin air?—A. No.

Q. They monetize that which belongs to the people?—A. They have assets.

Q. Have they the right to do that?—A. They have assets, but at the same time they acquire liabilities, or rather build up liabilities, I should say.

Q. They determine whether or not they will create assets?—A. They have to have a partner in that. If they want to buy bonds, they must find someone to sell them, or if they want to make loans they must find someone to borrow; it is not a unilateral transaction.

Q. They determine whether or not they will create assets?—A. That determination is dependent upon others, it is not their sole power. They must find someone who is selling or borrowing to provide the other side of the transaction.

Q. But if there is someone who desires to borrow from them, they can refuse the loan?—A. That is right. In other words, the banks might want to buy investments or make loans and find that they could not because no one wanted to provide the other side of the transaction; conversely, someone might want to sell bonds or borrow money and find that they could not do it. That is the theoretical position.

Q. It is actually being done. In the province of Saskatchewan they wanted $500,000 for seed expenditures this year and the banks refused to loan them the money.—A. I am not aware of the circumstances of that transaction.

Q. I have talked to business men. I have in mind one particular business man in the constituency that I represent. He wanted to borrow money from the bank to expand his industry and he was told that there was sufficient production from the industries already developed in Montreal and in Vancouver to supply the product that he wanted to manufacture; and they suggested to him that he act as an agent for one of those big manufacturing institutions in Montreal or in Vancouver.—A. Of course, if I may say so, there are two different things here. One is a question of a change in the whole monetary system; the other to which you are just referring is a question of the policy and administration under which the existing system operates. Those are two different things.

Q. I will put the proposition to you in this way. We have lumber in Alberta. We have standing timber which is of very good quality, although not of the best. In fact, the No. 1 quality of lumber in Alberta compares very favourably with the No. 2 lumber of British Columbia, and for all ordinary purposes is just as good as the lumber that can be produced in British Columbia for the markets of Great Britain. Finance has invested large sums of money in the lumbering industry of British Columbia and they are able to produce all the lumber that is required in the province of Alberta and large amounts for export. Can you conceive of the banks or the financial institutions being willing to loan money for the development of the lumber industry in the province of Alberta when it is already highly developed in British Columbia?—A. Yes, if the lumber industry in Alberta can be profitably developed, and enterprising citizens want to put some of their funds at risk in the thing, then the banks will lend the rest; but if no enterprising citizen agrees to take the risk and wants the banks to take the whole risk in a business which by definition shows signs of being unprofitable, then I dare say it is true that the banks would not loan the money.

[Mr. Graham Ford Towers.]

Q. But would it not be in the best interests to do so, when you consider that we have railroads running across the country that have been established? There is a large amount of money invested in the lumber industry of British Columbia?—A. By enterprising individuals who risked their money and gave their time.

Q. There are a number of men who have risked their money and given their time in small plants in lumbering in Alberta who find it absolutely impossible to go to financing institutions and get any credit.—A. Well, of course, as I said the other day, that question as to whether or not people who are reasonably entitled to borrow have been unable to do so, is one with which you do not get very far by discussing in a general way. If only one could get specific examples and examine those, that is what is really helpful.

Mr. LANDERYOU: I notice that I have only two or three minutes left so I had better deal with one question that these gentlemen have been raising, just to get a start.

Mr. CLEAVER: Before you leave the present point, have you any concrete examples?

Mr. TUCKER: Certainly.

Mr. CLEAVER: In regard to loans in Alberta?

Mr. LANDERYOU: Yes, they refused to finance the sowing of wheat in Saskatchewan.

Mr. CLEAVER: I am speaking of the matter of lumber.

Mr. LANDERYOU: Yes.

Mr. CLEAVER: Have you concrete instances in respect to that?

Mr. LANDERYOU: I could refer you to them, if you wanted to take it up. I have not the names here or anything like that. I do not intend to give the names at the moment.

Mr. TOWERS: Of course, if you did care to give the names, I am sure that the Inspector-General of Banks would be glad to investigate those particular cases.

Mr. LANDERYOU: If these gentlemen desire me to give the names, all right, I shall have to see them first, as to whether they want me to do that; because it is a rather delicate question.

Mr. TOWERS: Yes.

Mr. LANDERYOU: Here is another point I should like to make: what is the use of producing unnecessarily, if we cannot sell the goods? What is the use at the moment of increasing lumber production in Alberta? I admit at the moment there is a limited market in Alberta that we could secure, which British Columbia has. I am not condemning necessarily the people of British Columbia, because this is the system, and they have their agencies there. It is very hard to get people financially interested in it there because of the limited market.

The CHAIRMAN: Mr. Landeryou, the time of the committee is about up. It seems to me you had better defer the visualization of this limited scheme until the next meeting.

Mr. LANDERYOU: Yes.

The committee adjourned at 1.10 p.m., to meet on Wednesday, May 3, at 11 a.m.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 10

WEDNESDAY, MAY 3, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

WEDNESDAY, May 3, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Clark (*York-Sunbury*), Deachman, Dubuc, Fontaine, Hill, Howard, Jaques, Lacroix (*Beauce*), Landeryou, Lawson, McGeer, Martin, Moore, Ross (*St. Paul's*), Taylor (*Nanaimo*), Tucker, Vien—17.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Examination of Mr. Towers was continued.

Ordered,—That the following correction be made in the evidence, viz:—

Page 205, in the statement entitled "Volume of Canadian Money 1867-1938," for the heading "Dominion Bank of Commerce Notes" over columns 4, 5 and 6, substitute "Dominion or Bank of Canada Notes."

With the consent of the Committee, Mr. McGeer submitted questions to be incorporated in this day's record and answered by Mr. Towers, on a future date.

At 1.20 p.m., the Committee adjourned until 3.15 p.m.

AFTERNOON SITTING

The Committee resumed at 3.15 p.m.

Members present: Messrs. Bercovitch, Cleaver, Dubuc, Howard, Jaques, Lacroix (*Beauce*), Landeryou, Lawson, Macdonald (*Brantford City*), McGeer, Martin, Mayhew, Moore, Plaxton, Ross (*St. Paul's*), Taylor (*Nanaimo*), Tucker, Vien—18.

Examination of Mr. Towers continued.

Ordered,—That the Bank of Canada Act and sections 59, 60, 61 and 125 of the Bank Act be printed in appendix to this day's proceedings.

At 6 o'clock the Committee adjourned until to-morrow, May 4, at 11.00 o'clock, a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons, Room 277,

May 3, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m. The chairman, Mr. W. H. Moore, presided.

The Chairman: We are ready to proceed. Mr. Towers is with us again this morning and Mr. Landeryou will continue his examination.

In Attendance: Graham Ford Towers,
Governor of Bank of Canada.

By Mr. Landeryou:

Q. Mr. Towers, there is a question or two in reference to Canada's debt which I would like to ask you. Would you agree that a plan could be devised wherein we could pay Canada's national debt off in a period of fifty years?—A. That question, I think, was raised on the occasion of the last meeting, and I did not explain then that I could not be sufficiently optimistic as to visualize the conditions of tremendous expansion in private capital development or the tremendous total of production which would allow a shift of that kind to take place in such a period of time.

Q. You stated that the debts of the people were their assets.—A. I stated that the debt of the country was largely owing to its own citizens, yes.

Q. That is outside of bonds sold outside of the country?—A. Yes.

Q. Now, are those assets in the form of roads, buildings, national development—are they still worth the value as represented by the debts?—A. That is impossible to say; probably not.

Q. That is the point I would like to develop. For instance, the city of Ottawa borrowed money to build a city hall; it was burned down and they are still paying the interest on the debt; and occurrences of that nature have taken place throughout Canada. In the province of Alberta they have spent over $70,000,000 on highways and they have very little left to show in the form of an asset for the highways. And in connection with the tremendous sums that were expended on the war there is no asset to represent that to-day.—A. Yes, of course, as we stated—

The Chairman: Oh, yes, certainly—

Mr. Towers: —as we stated in an earlier memorandum, the real sacrifice occurs at the time the money is borrowed. I will not try to go into details of that extemporaneously because they were covered as completely as we could cover them in that memorandum.

By Mr. Landeryou:

Q. One more question and I will leave this question of debt. If we were to proceed to tax the people sufficient to retire this debt would it not disrupt our economic system so as to make it practically impossible?—A. Under conditions such as they are at the present time or even on the basis of any reasonable degree of improvement such as one could visualize it would be an unnecessary and useless disruption, yes.

The Chairman: Mr. Landeryou, may I suggest that as far as possible you avoid a repetition of questions that were asked at the last meeting?

Mr. LANDERYOU: Yes. I am going to ask Mr. Towers if he agrees that it should be physically possible to do that which is financially possible.

By Mr. Landeryou:

Q. Do you accept that?—A. I place the greatest importance on the physical possibility.

Q. Well, do you think it is possible to develop physically without having it represented in terms of an equivalent amount in money? In other words, if you cannot develop without a money system?—A. Thinking of the physical end of it, I assume that when capital development is taking place, whether private in the form of new factories or public in the form of roads or buildings that involves the people of the country abstaining from consumption to a certain extent so that the time and labour can be used on the capital development. Instead of many individuals across the country contributing through abstinence so to speak, in the form of a brick here and a stone there the thing operates through the monetary system. They spend on consumption something less than their income, which means that they actually use in consumption goods something less than they could and convey the results of that abstinence to someone else (including governments) who has capital development which he may wish to undertake. The monetary end is simply a mechanism by which one can accomplish that kind of thing as efficiently as possible.

Q. Now, would you agree with this statement that appears in the evidence before the Banking and Commerce committee of the senate, "the difference between actual production and possible production represents a cost to the people of the United States of maintaining present financial institutions."—A. I think the statement is meaningless.

Q. You think the statement is meaningless. You think the real reason for the lack of production, for the fact that our factories are working only part time and not producing to the utmost of their capacity is not due to a flaw in our money system?—A. No, I think it is due to a flaw, although in many cases an unavoidable one, in our system of production—in the character of our production, I should say.

Q. Coming back to that statement which is often made that that which is physically possible should be made financially possible, we have in the province of Alberta 14 per cent of the entire coal product of the world—that is an estimate—and we also produce vast quantities of agricultural products, cereals, meats of all kinds, and in Ontario and Quebec they have many things there that are natural to the production of Ontario and Quebec but cannot be produced in the province of Alberta. Now, we have unemployed coal miners by the score or hundreds in the province of Alberta; many of them are employed working only part time. They are not receiving sufficient meat for their families, they are not receiving sufficient milk and cereals for their families, they are not adequately housed; at the same time the farmer and the lumberman have not sufficient coal. In other words, the position is like this: the average farmer and the average citizen in Ontario and Quebec is counting every piece of coal that he puts into his stove and the lumberman is counting every drop of milk that he puts into the baby's milk bottle. Now, we believe it is physically possible to provide these people with the goods that are naturally produced in the Dominion of Canada, but these people who are in need are unable financially to claim those goods; in other words, we have no effective demand, which naturally leads us to the conclusion that there is a shortage of purchasing power in the hands of the vast majority of the people of Canada, and we say that before that which is physically possible can be made financially possible that purchasing power must be increased. Do you admit there is a lack of purchasing among the vast number of consumers in this country?—A. To the extent that your question is similar to the one which Mr. Tucker asked the

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other day and to which I replied at the last meeting, I do not think I can extend the answer that I gave. His question related to the problem of unemployed factors of production. I gave the best answer I could in that respect. To the extent, however, that your question comes into the field of social credit theory, I do not think I can do anything more than refer to the very careful examinations which were made in one case by the Australian royal commission on banking and currency and in the second case by the Irish commission. Both commissions devoted a great deal of time and thought to the matter. Their reports are available. I have them here. I could not do any better job than they did. They expressed the belief in both cases that the underlying theory of lack of consumption power of a character which could be remedied by social credit measures was not in accordance with facts.

Q. Now, I am not agreeing with that statement nor am I accepting the idea that this is simply a social credit theory. I was speaking in the house some time back and I suggested that not only our party but all parties in the house agreed that there was a lack of purchasing power.—A. Well, that is why I make those two points. There may be a lack of purchasing power due to ineffective use of one's domestic resources. To the extent that that is the question that is being raised I have replied in the only way I can in response to Mr. Tucker's questions.

Q. All I wanted to know from you, Mr. Towers, was the simple answer to the question in this way: do you admit that there is a lack of effective demand or a lack of purchasing power in the hands of a large number of consumers?

The CHAIRMAN: Has not the governor just answered the question?

Mr. LANDERYOU: He answered it by suggesting that that involved a discussion and a study of social credit as expounded by various people throughout the world.

Mr. TOWERS: Or that it involved considerations such as those which were raised by Mr. Tucker.

By Mr. Landeryou:

Q. I will proceed on the assumption that you do agree that there is a lack of purchasing power in the hands of many of the consumers in this country. —A. I put it on two sides—a lack of ability to produce the things which are wanted, which naturally carries with it a lack of purchasing power.

Q. Now, as to the ability to produce, you know, for instance— —A. Produce the things which are wanted.

Q. Produce the things which are wanted. There is this situation and it has often puzzled me. We have in eastern Canada factories that are capable of producing large quantities of agricultural machinery. Not only are they at the moment well able to provide for the needs of Canadian agriculture but they are able to construct farm machinery for export. Those factories are only working part time. There are thousands unemployed in Ontario. Many of them are willing to go into those factories to produce machinery, and at the same time there are thousands and thousands of farmers in western Canada who require new machinery. The machinery is practically worn out after seven years of depression. Many replacements are necessary. The farmers are unable to provide sufficient purchasing power to purchase the machinery if it was manufactured in eastern Canada.

The CHAIRMAN: Mr. Landeryou, may I ask a question?

Mr. LANDERYOU: Yes.

The CHAIRMAN: Are they not unable to buy machinery really because they are unable to sell the products of the machinery—of their wheat, if you want to be specific—at a price which will enable them to buy not only agricultural machinery but other goods which they require?

Mr. LANDERYOU: Well, that may be one of the reasons.

The CHAIRMAN: Is that not the basic reason?

Mr. LANDERYOU: I would not say that.

The CHAIRMAN: Until you remedy that reason and they can sell their product at a profit, at a price which will yield cost and then something over to go on with capital equipment —

Mr. LANDERYOU: That is true.

Mr. DEACHMAN: They must produce and market.

The CHAIRMAN: They must produce and market something, as the governor says, that the people demand.

Mr. DEACHMAN: Quite.

Mr. LANDERYOU: That is true. Unless there are people in western Canada who have the money to buy the machinery they will not be able to sell it in eastern Canada.

The CHAIRMAN: Therefore, they have got to get the money out of their product.

Mr. LANDERYOU: The situation works out also this way: those who are normally unemployed live on $6.47 a month.

The CHAIRMAN: Terrible, terrible.

Mr. LANDERYOU: Terrible. That is for food, clothing and shelter.

The CHAIRMAN: Terrible.

Mr. LANDERYOU: How are these people who want to manufacture machinery for western Canada ever going to get the purchasing power to buy western Canada's product? That is the position. It works both ways. It amounts to simply this, that both east and west are short of the necessary purchasing power to transport goods one to the other.

The CHAIRMAN: Surely we cannot consume all of the wheat you produce in the first place, and in the second place we cannot buy your coal because of the cost of transportation.

Mr. LANDERYOU: That enters into the same question. Why is it not physically possible to do that which is financially possible. We have the railroads. It is physically possible to mine the coal; it is physically possible to transport the material; but it is financially impossible to purchase the coal.

The CHAIRMAN: The only reason I interjected that question was that I understood at the last meeting you were on the verge of giving us your ideas as to an alternative scheme.

Mr. LANDERYOU: That is what I am leading up to.

The CHAIRMAN: I thought you had built up to that, and I was quite ready to hear you today. Then you began by repeating some of the questions that you asked yesterday. I would suggest—of course it is up to you—that you proceed with your alternative scheme. We are anxious to hear it.

Mr. LANDERYOU: I am building up to that. One of the principles that our party stands for is the necessity of increasing the purchasing power of the people.

The CHAIRMAN: Suppose you explain it. We will accept the idea that you have built up to it.

Mr. LANDERYOU: No. That is all very well, Mr. Chairman, to say that, but Mr. Towers does not necessarily agree that the people need increased purchasing power in the form of money.

The CHAIRMAN: Mr. Landeryou, if you read the record you will find that at 15 minutes to 1 yesterday morning you said that you were on the verge, and you hoped to give your scheme before 1 o'clock. Now, surely we are ready for it.

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Mr. LANDERYOU: That is just what I am hoping to do. I am trying to establish my basis now.

The CHAIRMAN: Proceed.

Mr. LANDERYOU: At the World Conference on Agriculture held at St. Andrews, Scotland, in 1935 there were representatives to that conference from every country in the world. Representatives were sent even from Canada, from universities, from the departments of agriculture from the various countries of the world. Now, after deliberating for some time they came to the conclusion that there was a surplus the world over—they contended there was a surplus of wheat in the Argentine and in Canada and in other countries of the world. In the United States there was a surplus of pigs; in fact they slaughtered 6,000,000 pigs. They were plowing down their corn and plowing down their cotton and paying people not to raise wheat; and in New Zealand the Minister of Finance stated that they had doubled, trebled and quadrupled their fruit production, dried fruits, dairy products, hides and wools for export and they found the markets blocked up by quotas and restrictions; and in England they could only sell rhubarb if it was of a particular shade of pink. The world over there was a surplus of commodities.

Mr. TOWERS: No, excuse me; there was a surplus of commodities in certain producing countries and a deliberate shortage in certain other countries where they forced their people to curtail their consumption for specific reasons.

By Mr. Landeryou:

Q. There was. They recognized there was a surplus, and the reason why they could not sell them was that there was a surplus in those countries I have mentioned?—A. Yes.

Q. We do know, as far as manufacturing is concerned, that Japan is trying to expand her markets; Germany is trying to expand her markets for secondary products and so is England and the other great industrial nations of the world like the United States and France. Now, they suggested that we increase the purchasing power of the world—

The CHAIRMAN: Who suggested it?

Mr. LANDERYOU: The World Conference, the Agricultural Congress, in their conclusions. They brought down these three suggestions: that you increase the real purchasing power of the masses; secondly that you decrease costs; and thirdly that you implement social measures.

The CHAIRMAN: Have you got a copy of the conference report?

Mr. LANDERYOU: I have not got a copy of it here just now.

The CHAIRMAN: I have sent for one. I would like to know where that statement was made.

Mr. LANDERYOU: I can get it for you.

The CHAIRMAN: As I understand it, Mr. Landeryou, the conference did not, as a conference, pass any resolution.

Mr. LANDERYOU: Yes. Well, I can get it for you.

The CHAIRMAN: As I understand it, the conference did not as a conference pass any resolutions.

Mr. LANDERYOU: I did not say they passed a resolution; I say they brought that down as a suggestion.

The CHAIRMAN: Some person at the conference may have brought it down.

Mr. LANDERYOU: That is not what it said.

The CHAIRMAN: We will have a copy of it here in a few minutes.

By Mr. Landeryou:

Q. It is not a fact that we are unable to produce goods and that people have not goods, it is simply that our financial system in its operations has prevented people from securing the purchasing power to lay claim on these goods.—A. That is a social credit theory which I think is effectively denied in the two royal commission reports I mentioned.

Q. It is not denied by facts.—A. I think it is.

Q. The facts are that we are capable of producing goods.—A. I think the facts are not in accordance with what you suggest, and I would think that in those circumstances, in view of the very careful study made by the two commissions I mention, in view of the coherent way in which they deny the suggestions, which are implicit in social credit theory, the thing for someone to do would be to write an equally effective denial of the reports of those commissions. That seems to me to be the first task before people who are interested in social credit, and yet is a task which so far as I know has never been performed.

Q. You keep referring to social credit, whereas I have not any more than advanced the idea that we must increase the purchasing power of the people.—A. Yes, because I think you have said that the financial system is what destroys their purchasing power, and that is the basis of social credit theory.

Q. I shall read the statements of many men in that respect to show you that there are others not social creditors who contend as I do.

The CHAIRMAN: Mr. Landeryou, before proceeding, I have now a copy of the conference report and I wonder if you would give us the citation.

Mr. LANDERYOU: It was in the synopsis.

The CHAIRMAN: These are the reports of the conference.

Mr. LANDERYOU: I know, but it was in the synopsis. It was put out in their economic analysis. I could not find it in here without going through the whole book.

The CHAIRMAN: I would say that the conference as a conference did not pass any resolution. Surely it is very easy to turn to the reference and show where the resolutions are, if you have read the book.

Mr. LANDERYOU: I will put it this way: The conference itself—and I never suggested that the conference itself passed any resolutions—

The CHAIRMAN: Or made any suggestions.

Mr. LANDERYOU: I said they made suggestions and the suggestions were contained in a synopsis of the report which I have not got with me. What I have is page 495 of the International Conference of Agricultural Economists, and it was from a synopsis of this whole report that I read the suggestions made. Now, whether they were made by the whole assembly or not can be questioned, but it was made by the members.

The CHAIRMAN: By what members?

Mr. LANDERYOU: In that statement.

The CHAIRMAN: By what members?

Mr. LANDERYOU: I have not the evidence before me. I will not proceed any further because I have not the synopsis of the report; I have only the report before me. I shall have to bring the synopsis, and I shall bring that for the next meeting of the committee.

Now, Henry Ford said:—

> The function of money is not to make money but to move goods. Money is only one part of our transportation system. It moves goods from man to man. A dollar bill is like a postage stamp; it is no good unless it will move commodities between persons. If a postage stamp

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will not carry a letter, or money will not move goods, it is just the same as an engine that will not run. Someone will have to get out and fix it. Now, our money system is not operating effectively in the transportation of goods and services?—A. Why?

Q. Simply because the people have not got the money.—A. I think they have not got enough ability to produce and sell goods, the accent being on the "sell," of course.

Q. Under the easy money policy being pursued now by the present administration we find that there has been a substantial reduction in loans to industry. To-day our factories in Canada are capable of producing more machinery of various kinds, more shoes, more clothing, but I would ask this question, how can they sell these goods unless the people have the money to buy them?—A. Unless the people have other goods to offer in exchange. That would be a better way of putting it. What is physically and economically possible is financially possible. I turn around what you say.

Q. You claim it is goods that pay for goods.—A. Yes.

Q. And money will not pay for goods?—A. Quite.

Hon. Mr. Lawson: Goods or services.

By Mr. Landeryou:

Q. We have plenty of idle services in this country.—A. Well, of course, if one goes too far it will be a case of taking in each other's washing. In other words, man cannot live by services alone. They are a useful accompaniment to the production of goods.

By Mr. Taylor:

Q. Can we not subsist to-day by taking in each other's washing, to a large extent?—A. If it were only washing, I would say "No." That is why I say we cannot live by services alone.

By Mr. Landeryou:

Q. Then you suggest the only way to increase the purchasing power of the people is to produce more goods and be able to sell them?—A. Yes.

Q. What is the use of increasing production when you cannot sell what you have already produced?—A. There we come to the crux of the matter, and any consideration of the events of the last ten, twenty or fifty years will, I think, show the character of the problem. Surely it was the case that from 1840 to 1914, and then with certain disturbances on pretty well to 1928, the world was being built up for the interchange of goods; that, in the first instance, the United States and Canada and various other countries were developing for an interchange of goods with the countries of the old world; that the character of production in Canada was based on that demand from other countries. Now, within the last ten years those customers of ours who had been accustomed to taking certain goods from us and giving us certain things in exchange have in various cases decided that whatever it might cost them in the form of a decline in their internal standard of living they were not going to buy any more, certainly not to the same extent as before; they were going to wreck the machine, and that is what has happened. Now, our problem is this: Can we turn to other forms of production which will be used at home? If we are forced to, over a period of years, I assume we must do that; but undoubtedly we would be producing goods which we cannot produce so well or so economically as the other things which we had been accustomed to produce. In other words, that transfer of vocations would involve a material decline in the standard of living. If the world remains a nationalistic world forever, I suppose that will be forced upon us. But it is a change which one does not make except as a result of force majeure.

The CHAIRMAN: May I supplement what the governor has said by a citation from the proceedings of the International Conference of Agricultural Economists. Mr. Cairns who was the director of the wheat advisory committee, London, stated:—

> In our next review of the world wheat situation we shall reinforce the argument of our September, 1935, review, that despite the superficial signs to the contrary the world is moving into and not out of a wheat crisis. Obviously every possible effort should be made to increase consumption, but in the absence of international co-operation designed equitably to share the task of adjusting production and export to effective demand, extremely low prices and much needless distress must, given average yields, be the lot of wheat farmers in surplus-producing countries.

He goes on to state rather significantly:—

> Ten million Frenchmen and a large proportion of the population of the continent of Europe depend directly or indirectly on wheat-growing for their principal means of livelihood. No amount of argument about the mutual advantages of free trade, or about anything else, will induce these people to give up growing "high-cost" wheat in order to make room for "low-cost" wheat from overseas countries.

It seems to me that that is the situation you have to deal with and show us how it is to be corrected by financial means.

Mr. TUCKER: That is the point I should like Mr. Towers to deal with. You put all the emphasis on the failure of international trade. I think what has happened in the United States indicates that there is another major trend to-day with which you have not dealt and with which I think you will have to deal; that is, by virtue of the existence of trusts and combines the benefit of technological improvement has not been passed on to the consumer in reduced prices, and profits have been built up in vast undistributed reserves which are represented in the price but are not there to purchase goods, and that the only way the thing can be adjusted is by continual bankruptcies, and so on. Or, in other words, it seems to me that one of the reasons for the apparent lack of purchasing power has been the concentration of that purchasing power through the very thing I have mentioned in the hands of a few people in dead reserves, and so on, which to-day are not finding investments in any way, shape or form because of the lack of capital goods development or the investment in buildings, and so on. There is no doubt that millions in this country and billions in the United States have gone into frozen lack of purchasing power and that unless we find some way to deal with that situation you will ultimately have a collapse of the system. That is my opinion, and it seems to me that economists like yourself—

Mr. TOWERS: Excuse me, Mr. Tucker, I am not an economist.

Mr. TUCKER: At any rate, bankers like yourself should be ready to give advice in dealing with that situation as well as putting the emphasis on international trade. If you feel like it I should like you to give expression in a short statement, sometime before this committee ends, to that problem, because it has always occurred to me that the social credit idea was based upon the idea of absolute lack of purchasing power, whereas, as a matter of fact, it is based upon the mal-distribution of purchasing power.

Mr. TOWERS: Mr. Tucker, if Mr. Landeryou will permit, I can answer that right away.

[Mr. Graham Ford Towers.]

By Mr. Landeryou:

Q. There is a surplus of wheat in Alberta and there is a surplus of fruit in the fruit-growing areas of B.C., not more than 300 or 400 miles from the province of Alberta. I have talked to these fruit growers and asked them this question: "Where do you market your fruit? The answer has been that they ship some to Australia and make a small profit. Sometimes the answer is, "I ship some of it, car-load lots, to the city of Calgary, and have to pay more for freight than I receive from the fruit." There is a surplus of fruit in that area, there is a surplus of wheat and there is a surplus of coal. The farmers have not the fruit nor the coal they require, and the coal miners have not the farmers' products. The fruit-grower has not all the products he would like to have from the farm or from the coal mines. You have suggested that until the people can sell wheat— —A. It is fruit we are talking about.

Q. Fruit, coal and wheat.—A. But, first of all, fruit and coal, and as I understand it the farmers in Alberta had an excess quantity of fruit.

Q. No, the farmers of Alberta had an excess quantity of wheat.—A. Where was the excess fruit?

Q. In British Columbia just about three or four hundred miles away.—A. Well, if the fruit-grower had excess fruit and wanted coal, and, if the coal miners had excess coal and wanted fruit, it shows a singular lack of initiative that that trade has not developed.

Q. They are unable to get the purchasing power.—A. They want first of all to exchange the fruit for the coal.

Q. That is what they want.—A. Why do they not do it?

Q. They have the railroad system but they cannot pay the rates.—A. In other words, it is economically impossible.

Q. Because the people have not the purchasing power.—A. Well, they have the purchasing power, because they have fruit and coal.

Q. In other words, it is possible?—A. On the basis of your assumption.

Q. Here is the basis of my assumption. There is a surplus of wheat in the hands of the farmers, there is a surplus of poultry and eggs, there is a surplus of labour and coal and there is a surplus of fruit. The job is to transport the fruit to the farmer and to the coal miner and the coal to the farmer and to the fruit grower, as well as to transport the farmers' products to both the coal miner and to the fruit grower. You suggest that there must be something wrong with their initiative?—A. On the basis of that earlier outline of yours.

Q. They cannot secure each others products without having the money to buy them?—A. Excuse me; I think that the interchange of products is all that is required. But I thought you were then going to point out a flaw, that you were going to say that so far as fruit growers are concerned they can get their coal more cheaply at home, perhaps.

Q. They can get their coal more cheaply at home but they are unable to pay for it.—A. And therefore they could not buy Alberta coal because they can get coal more cheaply nearby.

Q. I am suggesting that they have not the money to buy it. The farmers themselves have an abundance of agricultural products, but the coal miner is living on $6.45 a month; he is denied clothing and shelter, he cannot buy all the milk that is necessary for his children and he cannot buy all the meat that is necessary for his family because he has not the money with which to buy those things. The farmer has overhead, he has taxes to pay which he cannot pay in wheat.—A. In actual fact he pays in wheat.

Mr. DEACHMAN: Is it not true that the fruit growers of the Okanagan Valley get coal from some place?

Mr. LANDERYOU: In other words, you are saying that there is no market amongst fruit growers for Alberta coal?

Mr. DEACHMAN: They get coal of some kind from some place, but you, with a natural prejudice, want them to take it from Alberta.

Mr. LANDERYOU: Let us confine it to the farmers of Alberta and Saskatchewan. These farmers are surrounded by coal-mining areas and yet they have not sufficient money with which to buy coal.

Mr. DEACHMAN: They have not a sufficient market for their products at a reasonable price to enable them to get their coal.

Mr. LANDERYOU: That is the point I am trying to bring out.

The CHAIRMAN: It is out.

Mr. LANDERYOU: We cannot export our wheat to the markets of the world without transferring from one section of society to the other section those goods which we have in abundance. In other words, unless we can feed the world we cannot feed ourselves.

Hon. Mr. LAWSON: If what Mr. Landeryou says is correct that because the wheat grower cannot sell his wheat abroad therefore he cannot get the things he wants to consume, would Mr. Landeryou be good enough to point out to the committee now, while we have it in our minds, where social credit would meet that situation?

Mr. LANDERYOU: Social credit would meet that situation by a direct issue of purchasing power either through price discount or through a dividend to the consumer.

Hon. Mr. LAWSON: But you have still got wheat because you cannot consume it.

Mr. LANDERYOU: Yes.

Hon. Mr. LAWSON: The farmers still have the wheat. Your suggestion is that you give them purchasing power by issuing to them script or money, I do not care which, for which they give nothing?

Mr. LANDERYOU: Yes.

Hon. Mr. LAWSON: So you are making them a present of money or script or something with which they can buy the things they want?

Mr. LANDERYOU: That is right.

Hon. Mr. LAWSON: How long do you think the country could continue to be a Santa Claus to the wheat growers of Alberta who cannot sell their wheat by just giving some unlimited quantity of money which the rest of the country produced by goods and services? It is not suggested seriously, is it—

Mr. LANDERYOU: Are you serious?

Hon. Mr. LAWSON: I am terribly serious.

Mr. LANDERYOU: Do not confine it to the province of Alberta alone, because we are speaking as a government. This is a federal government.

Hon. Mr. LAWSON: Do not get away from your promises, wheat growers who cannot sell wheat. I do not care whether they are in Alberta or where they are.

Mr. LANDERYOU: I just took wheat as one illustration.

Hon. Mr. LAWSON: Take any commodity you like which they cannot sell anywhere. That was your promise.

Mr. LANDERYOU: Now then, I shall just show you the position of Alberta in relation to Ontario. Will you agree with me that there are many people in Ontario who would like to have more coal?

Hon. Mr. LAWSON: No; I want to stick with wheat.

Mr. LANDERYOU: I am going to stick to wheat.

Mr. JAQUES: You cannot stick to one commodity.

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Mr. LANDERYOU: If I am not going to be allowed to explain how this increased purchasing power would operate by citing an example that I see fit to use, then there is very little good in attempting to answer the question.

Hon. Mr. LAWSON: I took you on your own premise. You started out with the premise that wheat growers produce wheat and cannot sell either in Canada or in any other place in the world. If you agree your premise is bad, let us start with another one.

Mr. JAQUES: Mr. Chairman, I am not aware that this committee is for the purpose of examining Social Credit; I thought it was for the purpose of examining the existing financial system.

Mr. DEACHMAN: You are offering another system.

The CHAIRMAN: Quite right; but Mr. Landeryou said yesterday, and I think you will find it in the record, that he would give us his idea or his scheme or whatever it is for a financial set-up to correct the present disabilities, economic and otherwise. That is what we have been looking forward to.

Mr. McGEER: Don't you think if we are going to go into phases of that kind, it would be well for us to get through with Mr. Towers, get all the facts that are pertinent to this inquiry on the record?

The CHAIRMAN: Mr. Landeryou said he would give it in fifteen minutes.

Mr. DEACHMAN: We want Mr. Landeryou's idea of this type of money that will save this situation.

Mr. McGEER: I am suggesting that we get a complete record from Mr. Towers.

The CHAIRMAN: Mr. Landeryou said his statement has been made for the purpose of building up to a statement that he proposes to make as to a substitute scheme. If it is the wish of the committee that we should proceed with Mr. Landeryou, all right; if not, we can take up another phase.

Hon. Mr. LAWSON: I apologize for taking up time.

The CHAIRMAN: You are not taking up time.

Hon. Mr. LAWSON: I have been here 51 minutes. We have a witness before the committee. Out of the 51 minutes I will guarantee his answers have taken only 5. In the meantime, I was asking a question of the honourable member who was making a statement. I do not want this statement to go on the record and be accepted until I can see through it.

Mr. TUCKER: Mr. Chairman, Mr. Mayhew made a suggestion that I think is quite a good one, and that is after we get through with Mr. Towers, if we have time, we could let anyone who has answers to make to make them. Mr. Towers has said things in his replies that I am not quite satisfied with and which in my humble judgment do not give the whole picture. I am quite sure the same is very likely true of Mr. McGeer, and I am sure that the same would be true, probably of Mr. Landeryou. Any one of us might want to make a statement in reply to these statements put on the record, and as far as I am concerned, and I am sure the same would be true of Mr. Landeryou, if statements were made like that we should be subject to questioning as is now being attempted with Mr. Landeryou; but as Mr. McGeer says we should preserve some sort of order in the proceedings. The examiner can not be a witness one minute and an examiner the next, and so on; it does not seem logical.

The CHAIRMAN: Mr. Landeryou offered to explain his system.

Mr. TOWERS: If I may interrupt here, Mr. Chairman, Mr. Tucker said he felt that answers to various parts of his questions did not state the whole story. I am sure that—at least I hope—he has not got the idea that we did not tell the whole story to the best of our ability, as we know it.

Mr. TUCKER: I grant that. In other words, you have certain points of view in regard to this matter. For example, when I tried to point out a moment ago you laid the whole emphasis in regard to the present state of affairs upon national trade, I said I thought that was only one factor in the situation.

Mr. TOWERS: I did in my reply yesterday say that it is necessary to lay heavy emphasis on international trade, as we obviously must in Canada; but I certainly did not say that was the whole story. Perhaps a re-reading of that reply of yesterday when the evidence is printed will show that up.

Mr. TUCKER: Yes. What I meant to say was this: I am thinking of your attitude, for example, on the suggestion which I made. You said that the suggestion I had made would be an unfair tax on the banks.

Mr. TOWERS: No, on the public.

Mr. TUCKER: Unfair on the banks and on the public.

Mr. TOWERS: It would result in that because it would be passed on to them.

Mr. MCGEER: I think we can all accept this statement, that whatever Mr. Towers has presented, he has done so from the honest viewpoint of himself as governor of the bank.

Mr. TUCKER: We do not necessarily agree.

Mr. TOWERS: That is a different matter.

The CHAIRMAN: Are you really getting into disorder by not continuing until Mr. Landeryou has finished? Then Mr. Landeryou should be allowed to complete his statement.

Mr. LANDERYOU: I will confine myself to a few questions directly to the witness. I myself believe that the present financial system is responsible for the economic distress that is prevalent in the country today. In fact it is responsible for unemployment and for the unstable price level and for the unstable money medium that we are using today, as I see it. But I am going to ask this question of Mr. Towers.

By Mr. Landeryou:

Q. Do you think that it would be possible for the government to issue $600,000,000 to retire any portion of Canada's national debt that fell due?—A. $600,000,000 in cash?

Q. Yes.—A. That question has come up earlier in the proceedings, and I should like to-day to have the answer—I cannot find it now, but when I can locate that question and the answer I should like to refer to it.

Q. Well, there has been a lot of objection to government issuing money; there has been a lot of objection raised to governments tinkering with the money system, as they call it, and I should like to put on record a statement made by Thomas Edison in respect to this, and then ask Mr. Towers some questions in regard to it. This is the quotation:—

> Thomas Edison said: "The only dynamite that works in this country is the dynamite of a sound idea. I think we are getting a sound idea on the money question. The people have an instinct which tells them that something is wrong and that the wrong somehow centres in money.
>
> Don't allow them to confuse you with the cry of "paper money". The danger of paper money is precisely the danger of gold—if you get too much it is no good. There is just one rule for money and that is to have enough to carry all the legitimate trade that is waiting to move. Too little and too much are both bad. But enough to move trade, enough to prevent stagnation on the one hand, not enough to permit speculation on the other hand, is the proper ratio.
>
> If our nation can issue a dollar bond it can issue a dollar bill. The element that makes the bond good makes the bill good also. The

[Mr. Graham Ford Towers.]

> difference between the bond and the bill is that the bond lets money brokers collect twice the amount of the bond and an additional 20 per cent interest, whereas the currency pays nobody but those who contribute directly in some useful way.
>
> It is absurd to say that our country can issue $30,000,000 in bonds and not $30,000,000 in currency. Both are promises to pay; but one promise fattens the usurer and the other helps the people.
>
> It is the people who constitute the basis of government credit. Why then cannot the people have the benefit of their own gilt-edged credit by receiving non-interest-bearing currency, instead of bankers receiving the benefit of the people's credit in interest-bearing bonds? If the United States government will adopt this policy of increasing its national wealth without contributing to the interest collector—for the whole national debt is made up of interest charges—then you will see and hear of progress and prosperity in this country such as could never have come otherwise."

Now, that is very similar to the money policy that was enunciated by President Lincoln of the United States.—A. President Lincoln?

Q. President Lincoln of the United States. Very similar. He said that the government should issue all money and control the issue of all credit. Now, do you believe that a sound system can be developed wherein the State issues all money and credit rather than borrowing it from private individuals through the banking system?—A. Well, first of all with reference to Mr. Edison's remarks on which I think you wanted me to comment, let me say in the earlier portion of these remarks where he said that care would have to be exercised not to have too much money, or too little, he intimated that it was not wealth in itself and therefore that it had to be adjusted in accordance with the needs of trade. All right. I think that was a perfectly correct statement. He then went on to suggest that there was no reason why the government should not issue money instead of borrowing by means of bonds. Well, now, I think that he contradicts himself there, unless he assumes that the amount of money issued would be relatively small. Having once said that the money should not be issued in too large a volume, he can hardly contemplate an issue of money say fifteen times the amount then in existence, or whatever the multiple would be if bonds had been replaced by money. Perhaps he could have gained his object just as well if he had suggested that no interest should be paid on bonds. But then I do admit it would be possible in that case that if no interest was being paid people would try in some form or another to use bonds as money. In fact he could also have got the results he wanted in the form of lower costs to government, if that was any benefit to the country, by suggesting simply that all the interest paid on government bonds should be taxed back from the holders. He would probably have seen the flaw in that, though, because he would then have said to himself, well, if we take back in taxes all the interest paid on government bonds, why do not we take all the dividends, all the interest on corporate bonds, every form of income of that kind? Then he would have had one final step, the step which I suppose Mr. Edison would have hesitated to take. He would have said, that calls for communistic form of society.

Now, if you want that, that is the way to get it. If you do not want any private wealth, that is the way to achieve your object.

Q. You are suggesting that if the government were to issue money to pay off the bonds as they fall due, that it would result in communism?—A. I would say this, that it would result in chaos.

Q. Oh, well— —A. It would make money valueless, and you would then have the same situation which you had in Germany. All that happened would be a chaotic condition, and in the earlier stages a process of fooling the people.

That game of fooling the people by monetary dodges, of course, is as old as the hills; it has been going on for hundreds of years and it is not finished. Well, personally I would prefer a system which, no matter how it compared with the present system—I would prefer one which was approached on an honest basis rather than through an attempt to have your cake and eat it.

Q. Well, then, if the government—

Mr. McGeer: Mr. Chairman, I was going to—

The Chairman: Why not let Mr. Landeryou finish?

Mr. McGeer: May I not be allowed to say a word? I am speaking to Mr. Landeryou through you.

The Chairman: I want to let Mr. Landeryou finish.

Mr. McGeer: Mr. Landeryou told me this morning he would me through by 11·30.

The Chairman: We are having a meeting in the morning, Mr. McGeer, and we can have another one tomorrow morning.

Mr. McGeer: We have to—

Mr. Howard: I should like to hear Mr. Landeryou's statement.

Hon. Mr. Lawson: All Mr. McGeer wants to know is how long Mr. Landeryou is going to be.

Mr. McGeer: I have no desire to interfere.

The Chairman: Before proceeding, Mr. McGeer, I should like to ask Mr. Landeryou how long he will require to finish his statement. Are you practically through?

Mr. Landeryou: I should like to continue for some time, but I am prepared to give it to Mr. McGeer.

The Chairman: All right; proceed, Mr. McGeer.

Mr. McGeer: Thank you very much, Mr. Landeryou.

By Mr. McGeer:

Q. As you know, Mr. Towers, we were examining the kind and supply of money.—A. Yes.

Q. We were dealing with it from the point of view of the powers extended to the banking system of Canada.—A. Yes.

Q. By the changes in legislation that have taken place since the economic conference in Ottawa in 1932 which laid down the general proposition for British Empire national currency problems, which I believe was confirmed by the Empire representatives in the conference which took place in London in 1933.—A. So far as I am aware, and I think that is also what you mean, those resolutions were of a general character which suggested that various countries might take steps of a similar kind, rather than any general policy. Am I not right?

Q. I thought this morning we might just lay the basis of that—A. Yes.

Q. The resolutions passed at the conferences of 1932 and 1933 are set out in the appendix to "The Money Revolution" by Sir Charles Morgan-Webb, published in 1935. Sir Charles Morgan-Webb was formerly vice-chancellor of Rangoon University. This is the summary:— I do not know that you would want to agree with it altogether but I think it is a fairly complete short summary of policy enunciated in those two conferences.

"But the British Empire Currency Declaration of 1933, instead of regarding trade, industry and commerce as subsidiary factors to be used for the supreme objective of maintaining the gold reserves of the Bank of England, boldly reversed the Cunliffe policy, and.." —I take it the Cunliffe policy referred to was the recommendation of the Cunliffe commission to return to the

gold standard or something approaching the pre-war gold standard which the British government adopted in 1935, which really meant a very different form of gold standard from that which existed in 1914, in that gold coin no longer circulated, and Bank of England bills were not, per se, convertible into gold, but only into gold in ingot form for bankers' international settlement purposes. I think about £480 value, was it not?—A. It was $7,000. The present worth of the gold bar is $14,000, so that one must have been worth about $8,000.

Q. Yes, I understand; but did it contain a feature of the general convertibility of the pound sterling into gold?—A. For the individual who could afford to buy a gold bar, yes.

By the Chairman:

Q. Gold bullion standard?

By Mr. McGeer:

Q. Then it went upon a gold bullion standard?—A. Yes.

Q. And that continued the settlement of international balances in gold as an obligation of Great Britain?—A. Yes.

Q. I am going on with the quotation:— "...and in a magnificent and memorable sentence declared that for the future the aim of the currency policy of Britain would be to maintain an equilibrium price level that would secure three objectives:

1. To restore the normal activity of industry and employment;
2. To ensure an economic return to the producer of primary commodities;
3. To harmonise the burden of debts and fixed charges with economic capacity.

Currency, in brief, is to be the handmaid of trade, commerce, and industry, not their capricious and despotic tyrant.

In other words, to use all money as a means of advancing the general going concern activities of the nation was to be the aim of monetary policy in so far as monetary factors could affect it?—A. Yes.

Q. Now, on page 247, the resolution of the Ottawa monetary report is to be found and, I think, Mr. Chairman, it would be necessary to get the whole context to read the whole of paragraphs (c) and (d).

(c) The conference has considered what action can be taken by nations of the Commonwealth to help towards raising prices.

As regards monetary action, the conference recognises that the central position of the United Kingdom, not only among countries of the Commonwealth but in world trade and finance, makes the United Kingdom the main factor in anything that can be done. The conference therefore welcomes the following statement made of behalf of the United Kingdom by the Chancellor of the Exchequer:

'His Majesty's Government desires to see wholesale sterling prices rise. The best condition for this would be a rise in gold prices, and the absence of a rise in gold prices inevitably imposes limitations on what can be done for sterling. A rise in prices cannot be effected by monetary action, since various other factors which have combined to bring about the present depression must also be modified or removed before a remedy is assured. His Majesty's Government nevertheless recognizes that an ample supply of short-term money at low rates may have a valuable influence, and they are confident that the efforts which have successfully brought about the present favourable monetary conditions can and will, unless unforeseen difficulties arise, be continued.'

That has reference to the refunding of British debts at lower rates of interest and the providing of cheap money for housing and for several other factors, as they had generally in the United Kingdom at that time.—A. Yes.

Q. He goes on to say:—

> (d) The conference recommends the other countries of the Commonwealth represented here to act in conformity with the line of policy as set out in the statement of the Chancellor of the Exchequer so far as lies within their power.
>
> In the monetary sphere the primary line of action towards a rise in prices should be the creation and maintenance, within the limits of sound finance, of such conditions as will assist the revival of enterprise and trade. Among these conditions are low rates of interest and an abundance of short-term money. While regard must be had to the different conditions applying to the various types of loans, the rate of interest for all purposes should be kept as low as financial conditions permit.

And then they go on to deal with the question of resorting to inflation as a means of meeting public liability. At the same time it is necessary that those favourable monetary conditions be achieved not by the inflationary creation of additional means of payment to finance public expenditure." That is, they assume that the proper way to finance public expenditure was the use of the existing financial system's power to create bank deposit money?—A. I think they assumed the contrary there, did they not?

Q. "At the same time it is necessary that those favourable monetary conditions be achieved, not by the inflationary creation of additional means of payment to finance public expenditure."—A. That is it.

Q. The additional means means other forms of currency?—A. No, it also means the increase in bank deposits.

Q. Would you say they were opposed to increasing bank deposits?—A. For that purpose, yes; that is what they say there.

Q. In that regard we have not followed that in Canada and neither has Great Britain because very heavy discounts of both governments on bonds through our merchant banking system have increased bank deposits?—A. That is right.

Q. So that apparently either the committee's recommendation an that particular point was unsound or there has been a change.—A. It was a council of perfection.

Q. In any event we do know as a factual result that there have been discounts of bonds in Canada and Australia and New Zealand and Great Britain that have increased bank deposits for the purpose of financing public enterprise?—A. What is the date of that?

Q. 1933—that was 1932.—A. Yes. Speaking of the matter of bank deposits in England, all increase subsequent to 1932 did not come through the acquisition of additional government obligations by the banks. For quite some time now my recollection is that the increase in bank deposits in England has come from additional commercial loans and discounts and that government security portfolios have been either maintained at a stationary level or have gone down.

Q. Of course, you will agree with the proposition that with the new spending program which the British government is undertaking that that has certainly increased the bank deposits of England, because they are going in for borrowing as they have stated?—A. As far as I have seen in the newspapers they expect to be able to do most of that borrowing from the savings of the people without increasing bank deposits greatly, but that there might be some increase is certainly possible.

Q. What are the bank deposits of 1932?—A. In the United Kingdom, 1932, they were £1,983,000,000.

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Q. And to-day?—A. At the end of 1938 they were £2,172,000,000, an increase of approximately £200,000,000.

Q. That would be about one billion dollars?—A. One billion dollars.

Q. That would be about one-eighth of their total national debt in 1932?—A. Their total national debt is about seven billion pounds, so two hundred million pounds is about 3 per cent.

Q. About 3 per cent of their total national debt?—A. Yes.

Q. In any event, there was the general proposition of having a monetary system and a banking organism that would be able to create an abundance of medium of exchange and to maintain the level of the lowest possible interest rate?—A. Yes.

Q. Now, in following out that policy we think we have made adequate arrangements to have an abundant supply of money available in Canada; I think you will agree with that?—A. Yes.

Q. Now, if I might just summarize, in subsidiary coins we have an issue of some $35 million. That is the figure given the other day. I am dealing with round figues.—A. Yes, quite.

Q. I think we agreed that if we wanted to, under our present laws, we could convert our present supply of silver of 22 million ounces at a cost of $9,000,000 into roughly $36,000,000 of silver dollars?—A. Yes.

Q. There is no bar in law to our doing that if that was decided by the government to be the policy in connection with banking?—A. Yes.

Mr. Tucker: By supply of silver you mean the annual supply?

Mr. McGeer: We are supplied with 22,000,000 ounces which it has been said they could get at $9,000,000 and convert into Canadian dollars which would have a value of $36,000,000 a year.

By Mr. McGeer:

Q. I am saying that that is the available supply if we decided that we needed that reserve of money?—A. Available domestic supply, yes.

Q. That money goes into circulation according to the demand of the bankers for a supply of subsidiary coins to meet business needs?—A. Their demand in turn depends upon the demand of the public.

Q. Yes, to meet the going concern of business.—A. Quite.

Q. That money is not redeemable in anything, is that right? It actually costs the government in the direct and immediate transactions of purchase of bullion and minting considerably less than the money value given to it by law?—A. Yes.

Q. And apart from the implications of its effect on the price levels and existing securities it is a money that is issued at a greater value than its cost of bullion and minting. Therefore it is issued at a profit to the government in the immediate transaction of creation and issue?—A. Yes.

Q. Now, it is debt free money in the sense that once it is issued governments as governments are not under any obligation to redeem it or pay it back, and I am distinguishing as between the community at large and the government that issues it. To the government it is debt free money, is that right?—A. Yes.

Q. If we issued silver certificates for convenience purposes to avoid using silver dollars and we limited that silver certificate to a legal tender currency with no value as a merchant bank cash reserve then we would not have any more currency inflation or currency increase than the actual amount of silver certificates that were issued?

Mr. Tucker: You mean money increase.

The Chairman: Would your certificate be redeemable?

Mr. McGeer: No. Redeemable in silver dollars only.

Mr. TOWERS: Those silver certificates would presumably either replace existing Bank of Canada notes in the hands of the public or else they would add to the stock of money held by the bank.

By Mr. McGeer:

Q. I agree with that.—A. The banks, however, would not be able to regard that as part of their legal tender reserve because of the fact that they lacked full legal tender powers and, therefore, would have to hold them as additional amounts of money in their tills.

Q. But there would be no inflationary result as there would be if we issued them as cash reserves in the form of Bank of Canada bills?—A. That is right; it would simply be a load for the banks to carry.

Q. Whether it would be a load or not, Mr. Towers, it would be no greater load than silver dollars are?—A. As you suggested yourself, it would, of course, expand deposits by the amount of the issue, but after that it would be simply money of a non-legal tender character which would stay in the banks' vaults.

Q. No, it would be money of a legal tender character without cash reserve value. My suggestion is that you would issue the silver certificates as legal tender in Canada, but not possessed of reserve—I would issue them so they could not be used as cash reserves upon which the banks could pyramid ten to one in bank deposits.—A. Yes. When in the hands of the banks they would have no cash reserve value and would, therefore, as I say, be an idle asset in as far as the banks were concerned.

Q. Yes; in that the banks could not increase their loans on them; but it would be Canadian money in the bank?—A. They could use them to pay off deposits but they could not use them for any general calculation of the cash reserve position.

Q. Yes.

Mr. TUCKER: They could re-loan them.

Mr. McGEER: Just a moment, please.

By Mr. McGeer:

Q. They would be good for the purpose of satisfying any depositor that wanted his money and, therefore, would not destroy the banking system by creating a lack of confidence on the part of depositors?—A. That is right. The banks, of course, however, over and above whatever amount of the silver certificates they held would also have to hold such cash as they would have held if they did not have any silver certificates.

Q. That is 5 per cent.—A. That is 5 per cent legally.

Q. I think you could also take care of that by an amendment to the Act by saying that those deposits being full legal tender cash for the purpose of satisfying the depositors would not require that 5 per cent cash reserve?—A. That would mean that to the extent they had the silver certificates—suppose the banks held fifty million dollars of them and suppose that their deposits were two billion, five hundred and fifty million—you would, so to speak, earmark the fifty million dollar silver certificates against fifty million dollars of the deposits and say that for the balance of the deposits, $2\frac{1}{2}$ billions, they would have to have the usual cash reserve. That would really be the 100 per cent reserve system based on this new issue, to the extent that the new issue took place.

Q. When I put $1,000 of silver certificates in the bank I have $1,000 of silver certificate legal tender money there; I have a bank deposit?—A. Yes.

Q. When I go to the bank to get that $1,000 out I would not have to get anything—I would not be entitled to anything but my $1,000 of silver money; they could pay me off in that?—A. Yes.

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Q. And you know from banking practice that if they keep on adding 10 per cent of that amount it would be sufficient to meet any normal claim of depositors?—A. Not 10 per cent of the silver certificates; they have to keep 100 per cent.

Q. No.

Mr. TUCKER: By law, you are assuming—

Mr. McGEER: No, I am not. Once you made it law they would have to hold 100 per cent silver certificates; they would be able to resort to the same sort of banking practice as now.

Mr. TOWERS: It would be 100 per cent reserve.

By Mr. McGeer:

Q. It would be 100 per cent on deposits, but banking practice, Mr. Towers, has determined that depositors use cheques and they could use cheques to transfer silver deposits from one to another because silver deposits would be full legal tender money, just as they use cheques for the transfer of bank deposits in any other form?—A. Yes. Nevertheless, you will find out that on the proposition you are mentioning it does involve a 100 per cent reserve situation in respect of silver certificates which the banks hold.

Q. That may be true. I am going to deal with that question of banking practice later on, and I think we can deal with it, Mr. Towers. In any event, what I wanted to say was that there is a way by which we could use silver certificates for convenience purposes without having inflationery results in bank deposits?—A. No larger at least than the actual amounts of issues.

Q. That is right. Now, the other money we dealt with was merchant bank bills. I do not know whether you have this information at hand, but if you have you might give it to me—the amount of merchant bank bills in issue when the Bank of Canada opened.—A. Chartered bank note issues?

Q. Yes.—A. Yes, just a moment. We have not got it at March of 1935, but December, 1934, a few months before we opened, the figure was \$123 million.

Q. And the amount of the unimpaired paid up bank capital at that time?—A. The amount of the capital?

Q. Yes. It was \$145 million—\$123 million and \$145 million, is that right?—A. That is right.

Mr. TUCKER: One hundred and thirty-two million, was it not?

Mr. TOWERS: I have \$123 million as the figure.

Mr. TUCKER: Then the statement in the record is not correct.

Mr. TOWERS: Excuse me. I am sorry. This \$123 million was the amount held by the public; some notes are in transit through the banks, and that must be the difference.

By Mr. McGeer:

Q. How much was in issue?—A. The all-told total figure as at March, 1935, was \$125 million.

Mr. TUCKER: I have it \$132 million according to the evidence.

Mr. TOWERS: We are probably getting mixed up on dates.

Mr. McGEER: Yes. You are giving the month. This is taking it as the average for 1934, I think.

Mr. TUCKER: That would be the end of December issue.

Mr. McGEER: No; these are worked on averages, Mr. Tucker.

By Mr. McGeer:

Q. Mr. Towers, at the end of December, 1934, the figure you have here is bank notes total \$136 million—136·4?—A. Yes, correct.

Q. What is the amount of the unimpaired paid up capital to-day?—A. The same figure, $145 million.

Mr. HOWARD: What was the first figure?

Mr. McGEER: It was 136 point something.

By Mr. McGeer:

Q. Now, the amount of bank capital to-day is $145 million, and there is no change in that; and the amount of merchant bank bills in issue to-day if we could take it at the end of December, 1938— —A. $95 million.

Q. A deduction of how much?—A. A deduction of $41 million.

Q. How much was the deduction as between those dates resulting from the amendment to the Bank Act—5 per cent, is it not?—A. It is 5 per cent a year. I think that commenced in 1936, speaking from memory. There were three cuts of 5 per cent each, but in effect there were four cuts because the fourth one was to go into effect on January 1, 1939, and, therefore, it had to be prepared for by December 31, 1938.

Mr. HOWARD: That would be 20 per cent from $136 million.

Mr. TOWERS: That would be 20 per cent from $145 million.

Mr. TUCKER: Why $145 million?

Mr. TOWERS: $145 million was their capital which was the authority before the legislation changed; then it said that the authority would be reduced 5 per cent each year for five years—5 per cent of capital.

Mr. McGEER: It was not a reduction of 5 per cent of the amount in issue, Mr. Howard, but a reduction of 5 per cent of the amount they were authorized to issue.

Mr. HOWARD: Oh, I see.

Mr. TOWERS: That is right. And, therefore, the sum total of the deductions to-day, 20 per cent of $145 million is $29 million leaving the possible authorized issue as $116 million.

By Mr. McGeer:

Q. And the amount in issue to-day has been decreased more than 5 per cent, has it not?—A. By the banks or the total?

Q. The merchant banks.—A. I cannot understand that.

Mr. TUCKER: They did not have to decrease it as much as they have done.

Mr. TOWERS: That is right.

By Mr. McGeer:

Q. How much more could they issue than they are issuing?—A. Theoretically 21 million, but there is this about it; a bank, shall we say, has legal authority to issue 5 million; now its notes are all around the country; its branches hold certain unissued notes, those branches will advise head office pretty rapidly when they issue any additional notes net, that is after allowing for the ones they took in. Nevertheless, in order to make sure that they do not issue more than they are authorized to do, they have to leave a certain working margin, so that if a bank has authority to issue $5 million it would ordinarily find it rather hard to go beyond $4\frac{1}{4}$ or $4\frac{1}{2}$ millions or something like that.

Q. Well, now, they have power to issue $116,000,000?—A. Yes.

Q. And they are issuing $90,000,000?—A. $95,000,000.

Q. As of December— —A. 31st last.

Q. Are you sure that that December 31 figure includes the reduction that came in 1939?—A. You see, they would have to be prepared for that result on the morning of the next day, so one can assume—

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Q. Will you check that and see whether the figure is $90,000,000 or $95,-000,000?—A. You mean as of December 31?

Q. Yes, because we have come down another 5 per cent in 1939; I mean it is down to $90,000,000 now.—A. The actual amount in issue at December 31 was $95,000,000.

Q. On January 1st?—A. I would assume it would be the same.

Q. When did we come to $90,000,000, on what date?—A. They are not at $90,000,000, so far as I recall.

Q. I understood the issue now was $90,000,000.—A. At the end of March of this year they were $97,000,000. It is true that the figure did drop to $90,000,000 as of the end of January; that is a seasonal movement, and it has since gone up, and at the end of March was $97,000,000.

Q. $95,000,000 would be a fair average figure?—A. Yes.

Q. So that there is a difference in the amount they can issue and the amount they had in issue of $21,000,000?—A. Yes.

Q. Now, of course, I take it that it is cheaper for the banks in Canada to use Bank of Canada bills than to use their own?—A. That would be so if they could get them free, but they cannot.

Q. We will deal with that later. In any event, they would avoid the cost of printing?—A. Yes.

Q. They would avoid the cost of servicing?—A. The 1 per cent tax. As a matter of fact, note issue is not a profitable affair now.

Q. So that if they can get Bank of Canada bills in place of printing their own bills, it is preferable to use Bank of Canada bills?—A. Well, that is a matter of discussion. I know, with some of the banks. They cannot quite make up their minds. There is, of course, the cost of 1 per cent tax and the manufacturing and so forth that you have suggested. It does not appear,—in fact it probably is not—profitable at all, but they are continuing to issue their notes, apparently I suppose because of the advertising value or whatever you like to call it.

Q. And it is more expensive to issue these bank notes than to issue bank deposits?—A. Yes.

Q. The cheapest form of money that a bank can get is the Bank of Canada bills which are printed and serviced by the Bank of Canada. That does not cost them anything?—A. Yes, it does, excuse me. If they wanted, for example, to increase their cash reserves right now and we were willing that this individual bank should do so—perhaps I had better say the banks as a whole, because it is more intelligible—they would have to sell their securities in order to get additional cash.

Q. But suppose I sold securities to the Bank of Canada?—A. Yes.

Q. And then I put my Bank of Canada bills which I received for those securities in the bank on deposit?—A. Yes.

Q. That would become the property of the bank?—A. Yes. But do you think they would pay you any interest on the deposits?

Q. No.—A. It would not be a savings account.

Q. It would be put in a current account and they would not pay anything.—A. I see.

Q. They would in those circumstances get Bank of Canada bills at no cost to themselves.—A. Assuming that we had wanted it to happen.

Q. Yes; but that could happen, could it not?—A. Then, of course, the banks have the cost of servicing any deposits.

Q. That is the bookkeeping entries?—A. Yes.

By Mr. Howard:

Q. They charge for that?—A. They charge for the account if the account is low in relation to the turnover, yes.

By Mr. McGeer:

Q. There is no reason why they should not charge for the service, in my opinion.—A. No, no reason at all.

Q. As a matter of fact, if I want to go to a banking institution and have the bank look after my money for me, it takes the responsibility away from myself, does it not?—A. Yes; someone is going to pay for the service, that is certain; therefore it should ordinarily be the person who gets the service.

Q. As a matter of fact, apart from loaning and advancing money to maintain going concern activity, is not one of the most valuable services that the banks, under our system, offer in the exchange system that exists and that we all use—-—A. Undoubtedly.

Q. —and the other great service that they offer is that they provide a safe repository for accumulated money, wealth that can be lost or destroyed by fire or theft, all these things?—A. Yes.

Q. And it is in these two great services that the merchant banking system that we have developed to-day makes a real contribution to the stability and going concern activity of community business?—A. Yes.

Q. And I suppose it would be impossible to appraise the relative value of these two, but these two services are, in my opinion, just as important as the lending service.—A. Yes.

Q. And services for which banks are entitled to a fair and proper compensation from those who receive those services. Now, I do not want to go too far into assumptions.—A. Yes.

Q. But I should like to know if these two services are not in the main free services, not altogether free, but in the main free, and they are taken care of in the charges that are made on the lending end of the bank business?—A. Lending and investment end, yes.

Q. And there are several practical bankers who are now coming to the conclusion that it might be well to divide that expense by reducing the cost of loans and putting some of that charge back on the direct beneficiaries of this service?—A. In certain cases that would probably be advisable.

Q. As a matter of fact, what Mr. Howard mentioned as an invention has been carried out in the last few years?

Mr. Howard: In the last 3 years, to any extent.

Mr. Towers: In that case you mentioned of cash coming to the bank because an individual has put it in—that is Bank of Canada notes—you were speaking of the individual making a deposit in a demand deposit account and not receiving any interest. Of course, it would remain the case that so far as the Bank of Canada was concerned we would be earning interest on the additional notes put out, because we would have bought the bonds from the individual and we would be earning money on them; in other words, it is the individual who has contributed that free cash to the bank.

By Mr. McGeer:

Q. I will admit that, but what I was dealing with was the actual cost to the bank in that the money was itself free.—A. If an individual has deposited legal tender cash and is not receiving interest on his account, then the bank has added to its cash reserves free of charge except to the extent of the cost of servicing that deposit.

Q. In any event, to deal with the merchant bank issue, we have available today roughly $95,000,000, and that is subject to the reduction of 25 per cent?—A. In due course.

Q. By 1945 or 1946?—A. 1945, I think.

Q. So that we are going to lose a portion of that cash over the next 6 years?—A. It will be replaced by Bank of Canada notes, yes.

[Mr. Graham Ford Towers.]

Q. And be replaced by Bank of Canada notes. Now, then, in dealing with bank deposits the amount in issue now in $2,500,000,000?—A. Yes.

Q. In 1914 am I right when I say it was $1,100,000,000?—A. I have not got the figure as far back as 1914.

Q. Would you mind securing that figure and giving it to the reporter?

Mr. TUCKER: According to this figure I have here it is $1,052,000,000.

Mr. McGEER: I am not sure that it is the same figure.

Mr. TUCKER: On December 31, 1938, it was $2,498,000,000.

Mr. McGEER: In 1914?

Mr. TUCKER: $1,052,000,000.

Mr. TOWERS: Approximately $1,050,000,000. I won't swear that the figure is comparable.

By Mr. McGeer:

Q. I think if we took the round figure of $1,050,000,000 and $2,500,000,000, it would be satisfactory for our purpose. That shows an increase in bank deposit money since 1914 in Canada of $1,400,000,000.—A. Yes.

Q. Or an increase of roughly 90 per cent?—A. More than that, 150 per cent.

Q. 150 per cent?—A. Yes, almost.

Q. Now, in addition to our $2,500,000,000, I think we agreed the other day that on the legal cash reserves that the merchant banks have in their possession we can issue another $2,920,000,000.—A. I forget whether we were going on the legal basis.

Q. Yes.—A. Yes.

Q. Making a total available bank deposit money on the existing cash reserves in issue and as potential issue $5,420,000,000. That is correct, is it not?—A. Very close to it.

Q. So in cash reserves available that can be issued against unused gold reserves held by the banks we fixed a figure of $390,000,000, which was bank deposits that could be issued against it under our laws, $7,800,000,000, or making a grand total of $13,220,000,000?—A. Yes.

Q. Is that right, and available under our Canadian laws in gold reserves but not in use, $10,720,000,000?—A. That expansion, of course. was as we said at the time contingent upon the banks being able to acquire sufficient additional assets in the form of loans or investments.

Q. What I am dealing with, Mr. Towers, is the carrying out of the monetary policy which is described in the language of Morgan-Webb, and determined by unanimous agreement of the representatives of all the nations of the British Empire in 1932 and again in 1933, as providing an abundant supply of money?—A. Yes.

Q. This is the abundant supply that our Canadian laws have permitted?—A. This is the maximum supply that our Canadian laws have permitted.

Q. And under our Canadian laws that volume has been made available on existing gold reserves?—A. Yes, available, subject to what I said before, that ways and means can be found to get it out.

Q. I mean, the representatives of the nations sitting in conference were not dealing with uses of money; what they said is, we must have available an abundant supply.—A. They did not define abundant, of course, but still—

Q. I am satisfied— —A. Yes.

Q. I am satisfied, Mr. Towers, that our Canadian parliament cannot be criticised for being ungenerous in its interpretation. The abundance was certainly provided through our laws, $10,000,000,000 surplus of unused money.—A. In other words, from the legal point of view the system is extremely flexible.

Q. I agree with that.—A. Yes.

Q. Now I come to the other item of Bank of Canada bills. Mr. Towers, in my examination I am trying to keep away from the things that are non-monetary factors.—A. Yes.

Q. I quite appreciate that the question of trade regulation, the question of international relations, the question of private enterprises and a whole host of factors are in existence that have to be dealt with and have to be brought into play to solve our problems. They are not unrelated to the banking system, but are certainly probably as important in the long run to the whole system as anything that the Bank of Canada in conjunction with the banking system working in co-operation with the government can do. But as I say, I am trying to keep what I think are the proper subject matters of the inquiry in view; that is, the monetary factors purely and simply.—A. Yes.

Q. I come now to Bank of Canada bills. The amount in issue to-day is how much?—A. The amount in issue at the commencement of the operations of the Bank of Canada—

Mr. TUCKER: While you are looking that up, Mr. Towers, I should like to say that on page 205 there is an error. The heading on a table says "Dominion and Bank of Commerce notes." It should be "Dominion and Bank of Canada notes."

Mr. TOWERS: Yes; we saw that, but after it was printed. I have not got here, Mr. McGeer the exact amount at the date of our opening. It would have been about $40,000,000 on March 13, 1935.

By Mr. McGeer:

Q. I do not want the exact amount. To-day it is how much?—A. About $40,000,000.

Q. To-day?—A. And to-day it is—what I have given you there—$40,000,000,—was the active circulation in the hands of the public when we opened.

Q. I should like it all because I want to break it up.—A. I have it here. so we will cancel that $40,000,000 figure. The amount of the issue as shown on our first statement on Wednesday, March 13th, was approximately $97,000,000. Then, for the like figure, shall we take December 31st last and link it up?

Q. I think that would be all right.

By Mr. Howard:

Q. You had $97,000,000 in 1934?—A. March 13, 1935. December 31, 1938, shows approximately $175,000,000.

By Mr. McGeer:

Q. $175,000,000. What was the amount issued in the hands of the public on the first statement?—A. That is the figure of approximately $40,000,000.

Q. And the amount in the possession of the banks?—A. The difference between that and $97,000,000; it would be $57,000,000.

Q. And to-day in the possession of the public?—A. December 31, 1938, $118,000,000 in the possession of the public, and therefore $57,000,000 in the possession of the banks.

Q. What were your merchant bank deposits with the Bank of Canada on the date of your first statement?—A. They were $152,000,000.

Q. What are they to-day?—A. December 31, 1938, they were $200,000,000.

Q. Can you give me the total in issue in the hands of the public and in the hands of the bank and on deposit with the Bank of Canada on the date of your first statement?—A. That is, our total note issue and the total deposits with us?

[Mr. Graham Ford Towers.]

Q. Yes, that is, merchant bank deposits?—A. Merchant bank deposits.

Q. Merchant bank deposits with you which are claims for Bank of Canada bills?—A. You would like the total note issue plus the commercial banks' deposits with us?

Mr. Vien: And the figures separately.

Mr. Towers: We have the total note issue already on the record.

Mr. McGeer: We have the figures now.

Mr. Towers: $249,000,000 on March 15, 1935, and $375,000,000 on December 31, 1938.

By Mr. McGeer:

Q. An increase of how much?—A. $126,000,000.

By Mr. Vien:

Q. Mr. McGeer, might I interject? How much of that is due to the withdrawal of note circulation by merchant banks?—A. Well, to put it another way, that increase of $126,000,000 has produced an increase of, I think, $48,000,000 in the chartered banks' cash reserves. The remaining $78,000,000 represents additional notes in the hands of the public.

Q. What I have in mind, to put it clearly on the record, is the amount of the bank circulation that was withdrawn and replaced. If it is on the record I do not need it.—A. No, that part is not on the record.

By Mr. McGeer:

Q. I missed it. How much was the increase in Bank of Canada issues in the possession of the public and the Bank?—A. The increase in the amount of Bank of Canada notes in the hands of the public during that time was $78,000,000.

Q. The increase in the possession of merchant banks? That would be the amount they have on hand and the amount of deposits?—A. Yes. $48,000,000.

Q. Does that include bank deposits?—A. That is the increase in the chartered banks' reserves, the increase which is the sum total of their holdings of our notes and their deposits with us.

By Mr. Vien:

Q. Have you given me the figure I asked for?—A. Not yet. The decrease in the chartered bank circulation in that time was approximately $30,000,000. The increase in our active note circulation in the hands of the public was $78,000,000. So of that $78,000,000 one can say that $30,000,000 represented a switch from chartered bank notes to ours, and $48,000,000 represented the actual increase in the total.

Q. That is what I wanted.—A. Yes.

By Mr. McGeer:

Q. Bank of Canada notes are issued for two purposes: One to provide the public with pocket money which is commonly called till money by the banks?—A. Yes.

Q. And the other for bank exchange purposes among the banks?—A. No, the banks do not use our notes for that purpose. All their settlements are made through our office here in Ottawa.

Q. By a transfer of deposits?—A. By a transfer of deposits between their accounts, so that the banks hold our notes only scattered amongst all their branches to have them available to meet the requirements of the public.

Q. And because they have got surpluses over and above their public requirements they deposit it with the Bank of Canada and use the Bank of Canada as a clearing house?—A. Yes.

Q. But whether it is done in that way or not, the issue of Bank of Canada money which is either held by the banks or held on deposit with the Bank of Canada, is for the purpose of settling inter-bank balances?—A. And in case of need, of course, if the public need it for the purpose of meeting—

Q. Public demand?—A. Yes.

Q. Any other purpose?—A. As a cash reserve, of course. That is the basis of their whole system of loans and deposits.

Q. But for reserve purposes and inter-bank settlements?—A. Yes.

Q. And use of the public?—A. Yes.

Q. As a matter of fact, the Bank of Canada issues all the bills of denominations less than $5?—A. Yes.

Q. Also $5, $10 and $20 which are used by the public?—A. Yes.

Q. And right up to— —A. $1,000 now.

Q. But your larger denominations are for reserve purposes?—A. We have no larger denominations.

Q. Larger than $20's, $50's and $100's?—A. Well—

Q. $500 and $1,000 bills, I take it, are— —A. The bank keeps a certain stock of them in case of need. There are times every few years when you need some.

Q. There is a demand?—A. Yes.

Q. Now, I might just complete this one statement, Mr. Towers. How much on your present gold reserves can you issue over and above what is in issue? A. Taking the statement as of December 31st last, and sticking to one date—

Q. Yes?—A. On that date our gold holdings were approximately $186,-000,000.

Q. I think this would be a fair statement to make in this situation, that for any emergency purposes— —A. That would have provided a reserve of 25 per cent against liabilities of $744,000,000.

Q. I think you can increase that on your present holdings to around $200,000,000, can you not?—A. Yes.

Q. All right?—A. Approximately $200,000,000?

Q. So if we use $200,000,000 figure that is not objectionable to you?—A. Not a bit.

Q. That would provide a reserve of 25 per cent against $800,000,000 of liabilities actually?—A. Liabilities in the form of notes and deposits were about $375,000,000 at the end of December——no, excuse me, $395,000,000.

Q. Leaving— —A. $400,000,000, shall we say.

Q. Leaving $400,000,000 of Bank of Canada unused in reserve?—A. Yes.

Q. Now, I take it from the position we now see in Canada, that is financially, as far as the legal limitations are concerned we have an abundant supply of money. We carried out that part of the program of the British Empire monetary policy as set out in 1932 and 1933?—A. Present and potential, it is certainly no exaggeration to describe it as abundant.

Q. We are in this happy position, in any international emergency such as war, of having our credit and financial machinery in exceptionally good shape? —A. I think that is true.

Q. It is in good shape in that those reserves have not exhausted our gold supplies in Canada, have they?—A. Gold supplies, considered—

Q. In the terms of our annual production of gold.—A. —are a part, of course, of our exports, just as important a part as wheat nowadays.

Q. I quite agree, but I think you told me the other day that you were not using all your gold available for the liquidation of payments abroad or the repatriation of debts, that you had some surplus?—A. That has been true during the course of the last few months; in other words, during that time we have bought an additional $25,000,000 of gold.

[Mr. Graham Ford Towers.]

Q. Yes. So that right at the present time our international obligations are not exhausting our annual production of gold?—A. No.

Q. In addition to that we have, notwithstanding the depressed condition of international trade, generally a favourable surplus on international trade balance?—A. Which we use as a matter of fact for repatriating foreign debt.

Q. So that internationally and domestically, from a financial position, we are in the position of being abundantly supplied with money?—A. Yes.

Q. With the consent of the committee, I should like at our next meeting, Mr. Towers, to examine on the question of control exercised by the Bank of Canada on the issue of currency to supply the domestic and social economic needs of the dominion.—A. Yes.

Q. Without going into detail I should also like to come to the issue and the use of money.—A. I should like to mention one matter before the committee adjourns. The chairman gave to me certain questions which you had asked him to hand me to the effect of what powers were vested in the chartered banks, the Minister of Finance, the Governor in Council, and which had been transferred to the Bank of Canada; also another question along the same line. I have been holding these because my reply, I think, has to be along these lines; that those questions involve a legal opinion in regard to the effect of the Bank of Canada Act upon past legislation as well as the consideration of the legal status and powers of the Minister of Finance and the Governor in Council. It seems to me that those are questions with which we are not qualified to deal, and that they should be referred to the law officers of the crown.

Q. Have you not your own law officers of the bank?—A. No; we have not even a lawyer.

Q. Oh, what an outrage.—A. The other day Dr. Donnelly asked certain questions which, although not from a legal point of view, come into that same field.

Q. I quite agree with you, Mr. Towers, that if you have not a legal department I think we shall have to submit them to you and through you to the legal department. I think it could be done in that way.—A. Or to the law officers of the crown.

Q. Yes, but I think it should go through you to such law officers of the crown as have been allocated to the service of the bank.—A. But there have not been any allocated. I think it would have to go direct from a parliamentary committee. But in connection with Dr. Donnelly's questions, I would be ready to proceed with them, I hope, at the next meeting, even if it is tomorrow.

Q. All right.—A. That may cover some of the ground which you want covered.

Q. There is another series of questions, Mr. Towers, which I should like to put on the record. I do not think I need read them. They have to do with the purchase of dominion and provincial securities.—A.Yes.

Q. I can have them copied into the record and give you a copy.—A. I should like to have a copy so that we can get ahead with them.

Q. These are the questions which I should like to have dealt with:—

QUESTIONS:

Statement showing all transactions by the Bank of Canada for provincial and dominion government securities segregated as follows:—

(1) Total amount purchased from each of the provinces showing:—

(*a*) date of purchase,
(*b*) amount of security,
(*c*) rate of interest, and
(*d*) date of maturity.

Statement showing amount of provincial government securities purchased by the Bank of Canada from other than the provinces segregated as follows:—

(*a*) amount of securities of each province purchased.
(*b*) date of purchase,
(*c*) rate of interest,
(*d*) date of maturity, and
(*e*) from whom purchased.

Statement showing the amount of dominion government securities purchased by the Bank of Canada, segregated as follows:—

(*a*) date of purchase,
(*b*) amount of security,
(*c*) rate of interest, and
(*d*) date of maturity.

Statement of amount of dominion government securities purchased from other than the dominion government by the Bank of Canada, segregated as follows:—

(*a*) date of purchase,
(*b*) from whom purchased,
(*c*) amount of security,
(*d*) amount of interest rate, and
(*e*) date of maturity.

Statement showing provincial securities purchased by the Bank of Canada guaranteed by the dominion government and indicating such securities as follows:—

(*a*) By provinces issued,
(*b*) date of purchase,
(*c*) amount of securities,
(*d*) rate of interest, and
(*e*) date of maturity.

I am not sure that it would be either convenient or practical to answer all these questions, but you might deal with them and, if it is possible to have answers, I should like to have them. However, you will see from this what information is desired.—A. Then may I, with the permission of the committee, put on the record certain figures in regard to the volume of money and volume of business in certain countries, also in regard to the number of Canadian chartered bank branches, the latter in reply to a question raised by the chairman at an earlier meeting, and the former in response to a suggestion made by the chairman.

VOLUME OF MONEY AND VOLUME OF BUSINESS: CANADA, U.S. AND U.K.

INDEXES 1936 = 100

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Canada—													
Volume of Money.	100	108	113	111	103	101	94	94	100	107	113	117	122
Volume of Industrial Production.	100	106	118	127	108	90	74	77	94	104	114	127	115
United States—													
Volume of Money.	100	105	112	109	105	93	86	80	92	100	110	107	109E
Volume of Industrial Production.	100	98	103	110	89	75	59	70	73	83	97	102	80
United Kingdom—													
Volume of Money.	100	102	105	103	106	100	112	111	113	119	128	131	127
Volume of Industrial Production. . . . . . . (1924 = 100)		107	106	112	103	94	93	99	111	119	130	139	130

NOTES: Volume of Money includes coins, notes and bank deposits—December figures.
Volume of Industrial Production—Canada: D.B.S.
—U.S.: F.R.B.
—U.K.: B. Tr.
Annual averages.

[Mr. Graham Ford Towers.]

TOTAL BRANCHES OF CANADIAN CHARTERED BANKS IN CANADA—DEC. 31

1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
4,049	4,089	3,972	3,778	3,640	3,528	3,423	3,355	3,329	3,324

Mr. TUCKER: Mr. Chairman, I really do not think it fair to Mr. Landeryou to have his examination broken into more or less to the extent of two or three days. I understood Mr. McGeer would get through this morning. I think we should let Mr. Landeryou finish before we have his examination permanently broken into, in fairness to himself. I think that is only fair.

Mr. McGEER: Might I suggest to you and Mr. Landeryou that we might agree to get the facts as regards the operation of the Bank of Canada and the system complete.

Mr. HOWARD: Get them all together.

Mr. McGEER: And then in the discussions before the committee, after we have those facts before us, we can have it agreed that there is to be an open discussion on the different points of view in a clear and concise form. Now, personally, I would like to see Mr. Landeryou present a concise and complete social credit plan.

Mr. HOWARD: Hear, hear.

Mr. McGEER: And I would like, if I could, to get the committee to listen to me while I submit some ideas which I have as to the amendments to the Act and changes in policy which I believe would greatly assist in having more co-operation between the Bank of Canada and the merchant banking system and the governments in Canada as a whole—not merely the federal government but the provincial and the municipal governments—so that we can find some way, without bringing about the disastrous consequences of inflation or the destruction of capitalistic individual initiative to provide enterprise to get a greater volume of going concern activities safely and sanely financed. I think our problem in Canada is to get into circulation a medium of exchange that will increase the going concern activity by balancing internal production and construction, and while I quite agree that international trade plays a great part in the economy of this nation, and has to be dealt with, I think as the conference of 1932-33 suggested there are some possible opportunities for investment here which will improve the general situation internally throughout the dominion. However, as I say, those are arguments, but Mr. Towers might be interested in listening to them.

Mr. TUCKER: Mr. Landeryou agreed to have his examination broken into, and I do not want him to think that he is being taken advantage of.

Mr. DEACHMAN: Mr. Chairman, I requested the other day that Mr. Landeryou should give us his complete plan. Now, while he was proceeding to-day he was interrupted—

Mr. JAQUES: He has not got a plan.

Mr. DEACHMAN: He promised to give us his suggestions along that line. Now, he has been interrupted by a long examination which we were told would last only a short time.

Mr. McGEER: No, I did not say that, Mr. Deachman.

Mr. DEACHMAN: I am speaking now, please.

Mr. McGEER: I would like to see Mr. Landeryou proceed and finish at the next meeting.

Mr. LANDERYOU: I never suggested I was going to present any plan to the committee. I believe there are many methods being advocated to-day to solve the problem. We are not dogmatic. We have principles which we propound and believe in. We have a certain philosophy that goes with those principles. Now, I have no intention of presenting a definite plan to solve the economic

problems of Canada, because there are a number of things to consider. I did suggest that I would make suggestions to the committee that would be along the line we believe in and develop the principles that we stand for as we have placed them on record across Canada, being the establishment of a just price, the establishment of a continuous flow of credit, the establishment of increased purchasing power through the payment of dividends or price discounts. Practically everyone is familiar with those principles and I believe it is possible to introduce them into the economic life of Canada. As to the method by which it should be done there is a great divergence of opinion, but we can all agree that increased purchasing power is necessary if we are going to abolish poverty.

The CHAIRMAN: Well, we will give you an opportunity to show us how it can be done.

Mr. McGEER: Is it agreed that I may go on?

Mr. LANDERYOU: I suggest we should complete the examination of Mr. Towers if there is time, and if I can be of any assistance to the committee in further explaining the principles we stand for I am perfectly willing to do so.

Mr. JAQUES: Mr. Chairman, could Mr. McGeer tell us how long he will take to finish?

Mr. McGEER: I will shorten it as much as I can. I wanted to go in to the discussion of kind and quantity. I would like to place before the committee the actual parliamentary enactments under which this money is created—that is the source of supply. Then I think I would like to go briefly into a discussion of the uses of money. We have all got before us the Currency Act and the Bank Act and the Bank of Canada Act, and with those Acts before us I think we could spend a little time in dealing with the actual statutory enactments through which money originates in Canada. That would be valuable. That would probably take the balance of the next morning.

Mr. JAQUES: You think that will take another sitting?

Mr. McGEER: I think so.

Mr. JAQUES: Before any general plan is discussed, I have a series of questions I would like to put having a bearing on the existing system. We have held a good many sittings and I have sat here silently. I do not mind waiting, of course, so long as I do get an opportunity to put these questions.

Mr. McGEER: I think we can agree to that.

Mr. HOWARD: That is a fair way to put it. I would like to see, following the evidence of to-day, Mr. McGeer complete his programme, if I may call it so; and then I am interested in how we can secure under our present system more facilities to increase the business of this country.

Mr. LANDERYOU: That is it.

Mr. HOWARD: I think we should have Mr. McGeer complete his examination at the next meeting.

Mr. TUCKER: Let us have some understanding with regard to how much time we are going to need. Mr. McGeer needs one morning. How much time does Mr. Landeryou need to finish? We have to make our plans now, because I think we will get through on Friday. We have to make plans to hold the necessary meetings to do the things we are planning to do.

Mr. JAQUES: Before any proposed scheme or any proposed plan is discussed, I have a series of questions which I want to address on the present system.

Mr. McGEER: We all agree to that.

The CHAIRMAN: Shall we meet this afternoon at 3.15?

(The committee adjourned to meet at 3.15 p.m.)

[Mr. Graham Ford Towers.]

AFTERNOON SESSION

The Committee met at 3.15 p.m.

The CHAIRMAN: We have a quorum.

In attendance: Mr. GRAHAM FORD TOWERS, Governor of the Bank of Canada.

By Mr. McGeer:

Q. Now, Mr. Towers, in addition to our annual production of gold, producing a surplus which we are apparently adding to the existing surplus of gold which we possess, I think you told me the other day that the need for a currency gold reserve was to-day largely psychological so far as domestic currency was concerned?—A. As far as domestic currency was concerned, yes.

Q. Then I take it from that that you would agree that the finding of the MacMillan committee, the British MacMillan committee, section 148, would be worth reading. I should like to put it on the record, and it is as follows:—

> In the first place, the maintenance of a stable price level is not bound up with an inevitable annual increment in the volume of the various forms of purchasing power held by the public—coin, notes and deposits in commercial banks. Changes in habit may alter substantially the amount of purchasing power which the public desires to hold in various forms and, as the world situation improves and confidence is restored, the holding of purchasing power in cash or liquid deposits may decline in importance. Thus even if a constant relation must be maintained between the growth of central banks' liabilities and the desire of the public to hold liquid resources, a rate of growth of the former less than that usually assumed as necessary will suffice. In the second place, the relation between total central bank liabilities and gold supplies is influenced by the form which those liabilities take. For in so far as the legislation governing central banks' reserve ratio requires a smaller (or no) reserve to be kept against reserve liabilities, the growth in these liabilities, relative to total liabilities will diminish the pressure upon the available gold supplies. In the third place, it is not necessary that the volume of note issues should continue to be regulated, as it is now, by reference to the amount of gold held in reserve. If, as we recommend in part 2 of our report, the principle is adopted that gold reserves should be held, not primarily against note issues, but to meet temporary deficiencies in the balance of international payments, there need be no obstacle to the creation of a much increased volume of purchasing power without any increase in the supply of monetary gold.

That report, as you know, was filed in 1931.—A. Yes.

Q. And since then there has been plenty of evidence that that theory has not been worked out but is being more generally adopted as time goes on?—A. Yes.

Q. That is the necessity or the value of gold as a reserve base for domestic currency is disappearing and in fact, in Canada, whatever value it has now is purely psychological?—A. I would think so, and at the same time, of course, the realization of the desirability of holding gold as a means of effecting international settlements or of obtaining certain imports in the event of emergency is probably more prominent in the minds of a number of countries than it ever has been before.

Q. Oh, I quite agree. And it still has for that paramount purpose, international purchasing power or settlement of obligations, a real value?—A. A real

value, and a value which is all the greater now by reason of the fact that there are so many stumbling blocks in the way of doing without it through borrowing in foreign markets.

By the Chairman:

Q. May I intervene and ask a question? Have you the value of the gold supplies of the United Kingdom in 1931 and to-day?—A. Have we them here? Not here, but we can get them.

Q. They have increased enormously within that period, have not they?—A. Yes.

By Mr. McGeer:

Q. And as the need of gold for international purposes increases the desire to release it from domestic obligations increases also?—A. I think that would be a fair statement, yes.

Q. Now, on page 112 of the MacMillan report, in section 287, reading from the middle of the page we find the following:—

> The sole use of a gold reserve to-day is, therefore, to enable a country to meet deficits in its international balance of payments...

A. Is this someone's evidence, Mr. McGeer?

Q. No, the finding.—A. The report?

Q. Yes, and as I recall it this was a unanimous finding of all the members of the committee.—A. Yes.

Q. Not qualified in this regard by any of the addenda that were appended to the main report. This was, as I read the report, a unanimous finding of the committee. It says:—

> The sole use of a gold reserve is, therefore, to enable a country to meet deficits in its international balance of payments, until the appropriate measures can be taken to bring it again into equilibrium. This being the case, it is paradoxical that, in the numerous cases where countries have since the war re-established or established for the first time the gold or gold exchange standard, the consequent legislation has almost always expressed the total reserves of gold or foreign gold exchange as a definite percentage of the central bank's notes outstanding (plus in several cases its sight liabilities).

Now, as I take that finding, it is a finding that having decided in actual practice that gold's use is now confined to the settlement of international balances, it is an absurdity to have any portion of your gold reserves tied into your domestic currency issues as a reserve for that purpose.—A. I would not go so far as to say that it is an absurdity, because it does provide a certain check, and perhaps a very useful one, on occasion.

Q. Well, the limitation upon the power to issue currency as a reserve for bank deposits?—A. Yes.

Q. Is that the form of check you mean?—A. Yes, it is. In other words, the central bank has a curb in that way from going beyond a certain figure. In the case of Canada, of course, that curb could be removed by action of council, subject, of course, after an interval of at most a year, to the approval of parliament.

Q. And it could be done under the administration we have, and the attitude of our government, without weakening our internal currency system?—A. Assuming that the need for expansion was a justifiable one, I would hope and expect that would be the case, yes.

By the Chairman:

Q. And the psychology was adapted according to your premise?—A. Yes.

[Mr. Graham Ford Towers.]

By Mr. McGeer:

Q. I was not dealing with that particular point at the moment. The point I had in mind was that having the huge available money resources which we are neither using nor abusing, the elimination of our gold reserve provision in our Bank of Canada Act would not alter the policy of the Bank of Canada or the government at all?—A. No; in other words, that gold reserve provision is in no sense a hampering one and I would not expect it to be in the visible future.

Q. That is, we have plenty of reserves and plenty of money over and above any money laws?—A. Yes.

Q. Which we are not using, and as a limiting force upon the issue of currency and credit currency in Canada it plays no part?—A. Not in these days.

Q. And if we eliminated that from our Bank of Canada Act, the gold reserve provision of 25 per cent as against Bank of Canada note issues, it would not affect the monetary policy or the monetary situation in Canada at all?—A. It should not, no.

Q. So that when the MacMillan committee found that it was somewhat paradoxical, that it was a paradox to have in legislation such as the Bank of Canada Act a provision for a gold reserve, they were correct as far as we are concerned?—A. At that stage, of course, they had in the back of their minds gold reserve provisions which were very much higher than the one we have in the Bank of Canada Act; and they had in mind cases where the banks were actually being hampered by those provisions. I would say that if there is any thought of removing the provision, there should be a positive reason, so to speak, for doing so.

Q. Yes.—A. In other words, it should be thought of as something which would gain something for us.

Q. In section 289 they dealt specifically with the use of gold by adopting the recommendation of the gold delegation of the financial committee of the League of Nations?—A. Yes.

Q. You remember that?—A. Yes.

Q. The section reads as follows. It is at page 122.

The CHAIRMAN: This is the final report? It is page 122 of the final report?

Mr. McGEER: Yes, Mr. Chairman. It was the final report filed in 1931 of the MacMillan committee which had spent two years investigating the matter.

The CHAIRMAN: I thought you were reading from the final report of the gold delegation.

Mr. McGEER: No. I will just read the whole section.

The CHAIRMAN: Will you read it very slowly so that we can follow it?

Mr. McGEER: Yes. Section 289 reads as follows:—

> Under this heading, we strongly agree, therefore, with the general purpose of the recommendations of the gold delegation of the financial committee of the League of Nations in their second interim report. We hope that the following principle will be adopted by central banks generally:

Then the provision that deals with gold is sub-section (iv) and reads as follows:—

> (iv) There is also a further principle of central banking of a somewhat different character which must be observed if central banks are to be in complete control of the situation, namely, that central banks must not be unduly limited in their power to expand their deposits otherwise than against a corresponding increase in their holdings of gold or the

> equivalent of gold. Such undue limitation may result if the class of assets which the central bank is entitled to hold is too narrowly prescribed by law. Similarly, it should lie within the power of a central bank to restrict the volume of its deposits otherwise than by decreasing its holding of gold.

That is, they wanted the gold holdings of the central bank to be divorced from domestic currency, so that the gold holdings could be increased without inducing inflation and so that through the issue of currency as a basis for them, bank deposits could be reduced without disposing of gold reserves; and in that process of reasoning the result desired would be the development of gold reserves for international purposes.

Mr. TOWERS: Roughly, I think that is the case. They wanted to get away from the rigidities which were inevitable under a system where, to take an extreme case, a 100 per cent reserve in gold had to be held against those issues. They wanted to achieve greater flexibility; and, of course, those thoughts which were being expressed at the time by the gold delegation of the financial committee of the League of Nations and by the MacMillan committee were embodied in our legislation.

The CHAIRMAN: And may I add that, at that time, the gold delegation began with the idea that there would be a scarcity of gold production.

Mr. TOWERS: Yes.

The CHAIRMAN: To take care of currency needs. That was the foundation of the gold delegation.

Mr. TOWERS: Yes.

Mr. MCGEER: To take care of international needs.

The CHAIRMAN: No, no; currency needs.

Mr. MCGEER: Well, I did not quite read that into it, Mr. Chairman.

The CHAIRMAN: If you will read the first volume of the gold delegation report, I think you will find—if my memory serves me correctly—that it was instructed to investigate that very subject.

Mr. TOWERS: That was the atmosphere at the time: How can Europe get along with less gold?

The CHAIRMAN: Yes.

Mr. MCGEER: Or how can we expand the gold production or the use of gold so that international gold standard requirements for the settlement of international trade balances can be maintained as a means of increasing international trade?

The CHAIRMAN: It is not my recollection that the international aspect was involved.

Mr. TOWERS: Primarily, no. I think it was from the domestic situation and the feeling that they would be forced to operate domestically with less gold.

The CHAIRMAN: Yes.

Mr. MCGEER: If I may read again section 148 which I think makes that fairly clear, I should like to do so. I am reading from section 148.

The CHAIRMAN: What is the date?

Mr. MCGEER: Section 148, page 66.

The CHAIRMAN: You will remember that the gold delegation was formed in 1929 or 1928. It was instructed to report. The depression came in the midst of the investigation of the gold delegation in 1929, I think.

Mr. MCGEER: In any event, the MacMillan committee had all that before them and their finding was as follows:—

[Mr. Graham Ford Towers.]

> In the third place, it is not necessary that the volume of note issues should continue to be regulated, as it is now, by reference to the amount of gold held in reserve. If, as we recommend in part 2 of our report, the principle is adopted that gold reserves should be held, not primarily against those issues, but to meet temporary deficiencies in the balance of international payments, there need be no obstacle to the creation of a much increased volume of purchasing power without any increase in the supply of monetary gold.

If, as is suggested by the chairman, in 1919 and thereafter—

The CHAIRMAN: No, no.

Mr. McGEER: —the League of Nations committee were considering the necessity —

The CHAIRMAN: 1929.

Mr. McGEER: This is 1931.

The CHAIRMAN: I know; but the gold delegation began its operations, I think, in 1929 or 1930. We will get that.

Mr. McGEER: I think the gold delegation of the financial committee of the League of Nations was set up in 1919, in the beginning.

Mr. TOWERS: In 1919 or 1929?

Mr. McGEER: No, 1919.

The CHAIRMAN: We will get a copy.

Mr. McGEER: One of the first things they set up, of course, was a monetary committee to deal with reparations and debt payments. The whole problem that faced those working out the administration of the Treaty of Versailles was to find some way by which the reparations could be maintained. That whole question was very early considered. In any event, if there was at any stage of the proceedings of the gold delegation of the financial committee of the League of Nations the idea that there was a shortage of gold for the issue of notes for domestic purposes within nations, the MacMillan committee came to the conclusion as they say:—

> If, as we recommend in part 2 of our report, the principle is adopted that gold reserves should be held, not primarily against note issues, but to meet temporary deficiencies in the balance of international payments, there need be no obstacle to the creation of a much increased volume of purchasing power without any increase in the supply of monetary gold.

By Mr. McGeer:

Q. That was the finding of the MacMillan committee?—A. Yes. I think it should have been rather careful to define what it meant by "purchasing power." But I understand it. In other words, the expansion of deposits was probably what they had in mind.

Q. The purchasing power in all countries is practically on the same basis—subsidiary coin, bank notes and bank deposits?—A. Yes. They are thinking of purchasing power to the extent that it is represented by money, of course.

Q. Yes.—A. Rather than to the extent of increased production and the exchange of goods.

Q. In other words, they made a finding that the volume of purchasing power to be issued through the banking system was not necessarily to be limited by the supplies of gold; and I think we are on general agreement on that?—A. Yes.

Q. I mean, that is the situation in Canada. So that we come now to the proposition that, in addition to the huge reserves which we have—that is, the

abundant supply of money—we have power to suspend the operation of our 25 per cent gold reserve?—A. Yes.

Q. And we could do that without, as you said a moment ago, any harm to our system?—A. Under appropriate circumstances.

Q. Are you aware of any instance in which governments have used paper currency successfully in an issue through the unlimited powers of the department of government?—A. No, I do not recall it.

Q. During the great war did not Great Britain resort to the use of that type of money?—A. Of course, that depends on the definition of the word "successful." If success implies the maintenance of stability of the value of the money, then they have never done it successfully, so far as I am aware.

Q. But you are aware that during the war time period the British treasury had unlimited power to issue national currency for the liquidation of government obligations in the form of paper currency?—A. Not liquidation of government obligations. You mean of bond issues, for example?

Q. I should like to read another section from the MacMillan report. I am reading from page 27. Section 56 reads as follows:—

> During the war the Currency and Bank Notes Act of 1914 authorized the issue of Bank of England notes in excess of the limits fixed by law to such an extent as might be temporarily authorized by the treasury and subject to any conditions attached to that authority. But the important change in practice was that during the war and for ten years afterwards currency notes for £1 and 10s. were issued by the treasury, the amount and manner of the issues being entirely within the discretion of that department.

That was one instance where the British government had resorted to the issue of national currency in the form of paper money?—A. At the cost, of course, of a substantial depreciation in the internal value of the currency—very substantial.

Q. Whether that was so or not, and whether it was due to that issue or not, may be matters that are arguable.—A. Whether it was so or not is not arguable, because one has only to refer to the price level in Great Britain during those years.

Q. There were other factors in addition to the issue of this money which played a part in that which have to be considered.—A. In other words, it was the case that they had a depreciated currency; but you raise the question as to whether that was due to the issue of the money or to some other cause?

Q. Yes. Bradburys is what they were called?—A. Yes.

Q. The volume of Bradburys was, in comparison to the whole issue of the new money and national debts, comparatively small?—A. It was the foundation.

Q. Would you suggest that the Bradburys in any way took the place of Bank of England notes at that time?—A. They were in addition to them. I would say that the whole financial policy of the British government on the credit side, on the banking side, and on the side of provision of additional currency through Bradburys is all part and parcel of that thing which did produce in England during the war a very substantial degree of inflation; in other words, reduction of the value of their money in terms of commodities.

Q. Yes?—A. And that is a fair example of what you can do, particularly under war circumstances, by following a policy of that kind.

Q. But, in any event, we have that particular instance. When a government is in distress for money, due to international crises, one of its resources is the issue of its own national currency in the form of paper money?—A. Yes, it decides that the emergency is such that it cannot afford to ask for direct sacrifices, it decides that it must take the easy and quick way of doing it by depreciating the currency.

[Mr. Graham Ford Towers.]

Q. Yes.—A. England went quite a distance; France went, of course, a good deal further; so did Italy, Belgium; and as regards the other belligerents, the enemy countries, they went so far that their currency never recovered from the shock. It was all a question of degree though. It is much the same thing, but some did it more strenuously than others.

Q. Now, of course, when we talk about an inflated currency we talk in terms of currency that is issued in excess of the statutory gold reserve requirements.—A. Oh, no, Mr. McGeer; in excess of the monetary requirements, irrespective of gold.

Q. I did not say in whole, I said in part; it is at least evidence of inflation with a country having a gold reserve.—A. Not to me.

Q. When a country having a gold reserve issues currency in excess of that gold reserve requirement, now that may or may not produce inflation, because the volume of currency issued although it is in excess of the gold reserves may not in itself be sufficient to create an inflationary condition. But normally the gold reserves are there to prevent inflation; that is, they are there to restrict the issue of currency to a level which will not be inflationary. You just told me that a moment ago.—A. I said that they were a form of curb. Now, a curb may be so slight that one could go very far in the direction of inflation before reaching the curb. That is the case in Canada. I would say that simply because the central bank liabilities in the form of notes or deposits, simply because they happen in some countries to have gone beyond the place where they should have been in relation to the legal ratio of gold does not in itself indicate anything wrong. One would have to examine the situation and find out whether the thing that was wrong was the increase in their liabilities or the gold reserve provision.

Q. Well, in any event, if it does not result in inflation, the abandonment of those reserves, that is another proof that it is not an essential thing to domestic—an essential factor in the regulation of the issue of domestic currency?—A. The situation really depends on the issuance of domestic currency, on the creation of a credit situation from the domestic point of view which is not over done.

Q. Now, as a matter of fact to-day our gold is purchased by the Bank of Canada with the notes which it issues, Bank of Canada bills.—A. Or cheques, shall we say.

Q. Well, if you wish, cheques; with cheques which can be redeemed in Bank of Canada bills.—A. Yes.

Q. So the medium of exchange that is used to purchase gold by the Bank of Canada is Bank of Canada bills?—A. Yes.

Q. And these Bank of Canada bills are not redeemable in gold?—A. No.

Q. So that we are in effect using a paper currency authorized by parliament as the medium of exchange to purchase gold?—A. Or, anything else, as it is legal tender.

Q. I am just thinking of gold.—A. Quite.

Q. Now, aren't we then in effect using printing press money not convertible into gold to purchase gold?—A. That is the practice all over the world, with few exceptions; and there is nothing wrong with printing press money except the connotation. I think the phrase when generally used conveys the thought that once having started the presses going you can never do anything to stop them.

Q. I am quite aware of that argument. What I want to get at is the fact that we in Canada are using to purchase gold a printing press form of money authorized by parliament.—A. We are on a fiat money basis in Canada, there is no mistake about that.

Q. Yes, we are on a fiat money basis in Canada.—A. The value of our money will therefore depend on the prudence with which issues are managed, so to speak.

Mr. HOWARD: Certainly.

Mr. McGEER: What I want are the facts. We will come to that argument later. Now, that is a very great change in monetary policy as it was maintained prior to 1914?

Mr. TOWERS: Yes.

Mr. HOWARD: Yes.

By Mr. McGeer:

Q. Yes; the great change is in this, that prior to 1914 we condemned the issue and use of paper currency unless that paper currency was convertible into gold. That was in 1914.—A. Yes.

Q. Since 1914 we have moved to the place where we compel the sale of gold for a paper currency not convertible into gold. That is right, isn't it? I do not know whether you have got it or not, but I want to have it on the record; and I am not saying that facetiously. Now, that proves, does it not, that a currency of paper authorized by parliament has a purchasing power more powerful than gold itself?—A. I would not say more powerful, but for domestic purposes just as powerful.

Q. Well, it goes further than that; you see you have got two strings to that bow. If I have gold I must sell it for paper money.—A. Oh, no; oh, no.

Q. I can't sell it any place else. If I am a gold producer in Canada I must sell—

A. You can export it, provided the Minister of Finance gives a licence. I doubt whether the Minister of Finance would—but I cannot speak for the Minister of Finance.

Q. I do not expect you to. But as a matter of fact, in general practice the government of Canada has taken over a monopoly of the control of the export of gold?—A. Yes. Incidently, of course, what they have also done is this, when there has been a premium on New York funds, and when ordinarily a gold producer would benefit from the sale abroad in terms of New York funds, the government has paid the gold producers that premium on New York funds.

Q. Yes, but they force the sale to go to the government, not to be exported by way of licence?—A. On the basis of a gold producer getting as much as he could have gotten in any market in the world.

Q. Quite true.—A. If, for example, gold is selling at $35 an ounce in New York, and if there were to be a premium of 20 per cent on New York funds, the government would not take gold from the producers here at $35 an ounce in Canadian paper money—

Q. I think the point that I want to make is not involved in those details. I put it on this basis, that if he sells gold to the Bank of Canada he must take paper currency?—A. Yes, but you don't need to sell the gold.

Q. I don't need to sell the gold, but if I have paper currency I can't get gold from the Bank of Canada?—A. No; so long as the gold provisions are suspended from year to year by order in council.

Q. And therefore, on that basis, now; and even since the Bank of Canada started—A. Yes.

Q. So that in that regard we must give up gold for paper currency?—A. Not "must."

Q. If I want to sell it to the Bank of Canada?—A. Yes, but you can sell it to somebody else.

Q. Not in Canada.—A. Yes, you could sell it to the government.

Q. To the government?—A. And receive as much as you would by selling it anywhere in the world.

[Mr. Graham Ford Towers.]

Q. But I would have to take that in legal tender cash of Canada, which is Bank of Canada bills.—A. At a rate which would allow for any depreciation in the value of currency.

Q. Yes.—A. In other words, if Canadian currency were depreciated to the extent of 50 per cent I presume, perhaps rashly, that the gold producer would receive $70 an ounce in Canada.

Q. Providing that the government agreed to it.—A. So that the spirit of force, so to speak, in the sale of gold, has never been present.

Q. I am going to deal with the Gold Export Act a little later on, and I think we will clarify that then.—A. Yes.

Q. Then we have in Canada two forms of national currency being issued; one is the subsidiary coin—bronze, nickel and silver coins—issued through the mint?—A. Yes.

Q. And the Bank of Canada.—A. As agent, yes.

Q. And authorized, as far as its creation is concerned, by the Currency Act.—A. Yes.

Q. And we have Bank of Canada bills issued by the Bank of Canada, the creation of such bills being contained in the provisions of the Bank of Canada Act?—A. Yes.

Q. Now, could you give me a statement of the percentage of national currency money in issue as compared with the money issued by our chartered banks.—A. Are you speaking now only of note issues?

Q. No. I want subsidiary coins and the Bank of Canada bills now issued and in circulation contrasted on a percentage basis with merchant bank bills and merchant bank deposits.—A. To make that comparison a proper one we should also include deposits with the Bank of Canada.

Q. Oh, quite. I think all the way through these proceedings, if I overlooked it, Mr. Towers, I consider, and I think you will agree with me, that the amount of Bank of Canada Bills is the amount of deposits with the Bank of Canada, or the equivalent of a note issue?—A. That is right.

Q. You could give me that percentage?—A. Yes. Perhaps I can work that out in a couple of minutes and come back to it.

Q. Mr. Towers, when you allow the merchant banking system to issue bank deposits which, with the practice of using the cheques as we have it in vogue to-day constitutes the medium of exchange upon which I think 95 per cent of our public and private business is transacted, you virtually allow the banks to issue an effective substitute for money, do you not?—A. The bank deposits are actual money in that sense, yes.

Q. In that sense they are actual money, but, as a matter of fact, they are not actual money but credit, bookkeeping accounts, which are used as a substitute for money?—A. Yes.

Q. I think it is fair to say that in the evolution of the monetary system we have moved from metal money to the use of metal money and paper money and then on to the use of metal money, paper money and bank deposits in the form of accounts?—A. Yes.

Q. And that when we allow the banks to issue bank deposits and to use them as money— —A. The banks do not use them as money; the customers do.

Q. Well, to permit their use as money?—A. Yes.

Q. Then we authorize the banks to issue a substitute for money?—A. Yes, I think that is a very fair statement of banking.

Q. Then it would be fair to assume that in the evolutionary processes of the development of our medium of exchange the prerogative right of government to be the issuer of the money medium of exchange of the nation has been transferred from the government to the merchant banking system?—A. I am not capable of speaking of the legalistic conception of it.

Mr. Howard: You mean prior to the formation of the Bank of Canada?

Mr. McGeer: No, I would say subject to the control of the Bank of Canada, whatever that may be, if you want that qualification in.

By Mr. McGeer:

Q. But, as a matter of fact, the merchant banks issue bank deposits which I think we all agree are in use as the medium of exchange to consumate about 95 per cent of our money transactions?—A. Yes. Not thinking of any legal conception of it, it is the case that, subject to the control exercised by the central bank, and subject of course also to the regulations imposed by the Bank Act, the banks are allowed—this sounds rather trite but it really is the case—to do the business of banking, which is along the lines that you describe. May I say that it is only a question of phraseology, so that it is a minor point, but the issue of bank deposits does not ring very truly in my ears. The banks are able, so long as they operate within the framework of the Bank Act and command the confidence of the people, to make loans or investments which will result in their setting up liabilities in the form of deposits. The public having decided that they will leave those deposits with the banks, as a question of convenience, then use those deposits rather than using metal money or paper money for most of the transactions of the country.

Q. Have we got that percentage now?—A. The percentage of subsidiary coin, plus Bank of Canada notes, plus chartered bank deposits with the Bank of Canada to chartered bank deposits and notes is 16 per cent.

Q. 16 per cent of the total?—A. Yes.

Q. Is that 16 per cent of bank deposits or 16 per cent of the whole total of money in issue?—A. 16 per cent of chartered bank deposits and chartered bank notes.

Q. What I wanted to get was— —A. The percentage of the total?

Q. —the percentage of the total. What you have given me is the percentage of one to the other, but I want what percentage of the total is issued by the government and what percentage of the total is issued by the merchant banks. —A. That percentage is 12.

Q. 12 per cent of the money in use in Canada is issued by the government through the mint and the Bank of Canada, and 88 per cent is issued by the merchant banks of Canada on the reserves issued by the Bank of Canada.—A. Yes. As you can see through taking the total of all those items and saying that the subsidiary coins and Bank of Canada items represent 12 per cent of the total, there is a certain distortion, because the Bank of Canada notes and deposits are quite largely the cash reserves on which the other deposits rest.

Q. But if the issue of currency and money is a high prerogative of government then that high prerogative has been transferred to the extent of 88 per cent from the government to the merchant banking system?—A. Yes, but I would say this, that it would be from a legislative point of view comparatively simple to remedy that. Obviously, we want a banking system; I mean, the convenience of being able to carry accounts and pay by cheque is very great and the people would want that continued; therefore, there is no thought in any of our minds that a banking system would disappear.

Q. No.—A. Now, if it is considered undesirable that the banking system should be operated privately, so to speak, then the remedy obviously lies in nationalizing the system. It can be the only possible change in that respect.

Q. Well, I think we will come to that argument a little later on.

Mr. Howard: I disagree with that.

Mr. Towers: I do not suggest that that should be done, but those are the alternatives arising from the thought expressed by Mr. McGeer.

By Mr. McGeer:

Q. Mr. Towers, I have no thought of nationalizing the merchant banking system and no thought of nationalizing privately owned money.

[Mr. Graham Ford Towers.]

Mr. HOWARD: Hear, hear.

By Mr. McGeer:

Q. We can be on clear ground regarding that. And I have no thought of establishing a change in the monetary system.—A. Yes.

Q. That would destroy the merchant banking system.—A. Yes.

Q. As an effective service to the commerce of a capitalistic democracy?—A. Yes.

Mr. HOWARD: Hear, hear, that is the thing.

By Mr. McGeer:

Q. And if you have any idea that my thoughts are drifting along that line I may say to you that they are not. May I say to you further that in the proposals which I intend to make before this committee, before its deliberations are concluded, I propose to show that the changes which I think can be made to improve public finance and general circulation will not be detrimental to the merchant banking system, to the insurance companies, to the trust companies or to private investment or to private capital. On the contrary, that all those institutions and individuals will be benefited rather than harmed.

Now, the point that I was making was this: If it is the prerogative right of government to issue money, then that prerogative right in Canada under our existing system has been transferred to a merchant banking system to the extent of 88 per cent of the money in issue in use? That is correct, is it not?—A. Yes.

Q. Now, when the merchant bank is authorized to create and issue a bank deposit as a substitute for money in a system where that substitute actually functions as money, it is giving to the bank the equivalent of the power to mint coins, or print money?—A. Under the regulations imposed by government, yes.

Q. But that is the result of that transaction?—A. As I said in one of the earlier meetings on the same subject it gives them that power. Naturally, in order to exercise it, they have to have the confidence of the people.

Q. In any event, under the system of banking authorized by parliament and accepted by the people as the common practice, our merchant banks create and issue 88 per cent of the money medium of exchange used by government and people in Canada?—A. Through their ordinary banking activities in the form of making investments and loans.

Q. But they do create and issue 88 per cent of the money which we use?—A. "Issue" is just that phrasing which I questioned, but it is the case that through their banking activities in the form of making investments and loans you find then the creation of these deposit liabilities which serve in major portion as the medium of exchange in the country.

Q. But there is no question about it that the banks do create that medium of exchange?—A. That is right. That is what they are there for.

Q. That is what they are there for and that is what they do.—A. Yes, they do.

Q. And they issue that form of medium of exchange when they purchase securities or make loans?—A. That is banking business, just in the same way that a steel plant makes steel.

Q. So that we are clear on this point that our merchant banks do create and issue 88 per cent of the money medium of exchange in common use in Canada to-day? That is correct, is it?—A. Roughly.

Q. This may seem elementary, Mr. Towers, but I should like to place it on the record. I want to deal with the laws under which Canadian money is created and issued into circulation and controlled and regulated in circulation.

I think you will agree with me that the creation, issue, and regulation of the circulation of the Canadian medium of exchange are provided for in our currency and banking laws?—A. The principles and safeguards are laid down; the amounts, of course, are not specified.

Q. Controls of the amounts are specified?—A. Yes.

Q. And in so far as banking practice in the regulation of circulation is concerned provision is made for that, both as to currency and bank notes? That is correct, is it not?—A. The actual amount of circulation in the hands of the people is determined by their needs.

Q. And as the MacMillan committee pointed out, by their own attitude in so far as private money is concerned?—A. By the habits of the people, you mean?

Q. By the habits of the people, yes, or changes in practice.

By Mr. Vien:

Q. The power and limitation is in the Act?—A. Yes.

By Mr. McGeer:

Q. There are two factors which affect circulation: The controls which are defined by legislation and exercised by authorities who are there for that purpose, and the habits or actions of the people with regard to their private possessions. That would be correct, would it not?—A. Yes.

Q. The basic law for the creation of Canadian money is the Currency Act, is it not?—A. That refers now, of course, as I recall it, only to subsidiary coins.

Q. I shall go through the different provisions of that Act with you. For instance, section 15 of that Act provides that all accounts, debts and obligations— —A. Oh, yes, I see.

Q. It goes further than merely subsidiary coins.—A. Yes.

By Mr. Vien:

Q. Would you quote the reference to the statute?

Mr. McGeer: An Act respecting currency, chapter 40. This might be cited as the Currency Act, 1910. It will appear in the revised statutes. I have not them here. I would suggest that the Currency Act be made an appendix to this record.

Section 15 of that Act—and I put the sections in the order which I think work out the conclusion—provides that all debts, accounts and obligations shall be kept and settled in the money of Canada or in the currency of Canada. That regulates by law the thing that we use for money in all our commercial and public transactions, and that is the basis of the money system in Canada.

Section 2 of that Act fixes the denomination in terms of dollars, cents and mills, which are the denominations of our Canadian money.

Sections 6 and 7 authorize the Minister of Finance to purchase bullion. I should like to draw the committee's attention to the language of section 6, which says:—

> The Minister of Finance may from time to time issue out of the Consolidated Revenue Fund such sums as may be necessary for the purchase of bullion in order to provide supplies of coin for the public service.

By Mr. McGeer:

Q. That section puts a direct responsibility upon the Minister of Finance to purchase bullion and to create the money medium of exchange as far as coin currency is concerned needed to service the Dominion of Canada?—A. Yes.

Mr. Vien: Would not that section apply only to the requirements for minting purposes?

[Mr. Graham Ford Towers.]

Mr. McGEER: In order to provide supplies of coins for the public service.

Mr. VIEN: That would be linked up with the mint.

Mr. TOWERS: The raw material of the mint.

Mr. VIEN: It refers to coins, the power to buy bullion to provide the necessary supply of material for coins. Is that not necessarily linked up with the mint?

Mr. McGEER: I quite agree. I mean to say this deals with coins, but it is a relic of legislation which existed prior to the use of paper money, prior to the issue of bank deposits as a substitute for money; but what I suggest it indicates is that it is a governmental responsibility of a specified minister of the crown to supply the coin needs of Canada.

Mr. VIEN: Yes.

By Mr. McGeer:

Q. Now, to make the matter pointed to what I am suggesting, may I say that if it is the duty and responsibility of the government to supply the coin needs of Canada there is no reason that I can see why it should not be the duty and responsibility of government to supply all the money needs of the public. The next section of importance is section 3 which defines the fineness of gold coins and the fineness of silver coins, one, nine-tenths fine and the other, eight-tenths fine. Section 20 gives to the Governor in Council all the powers necessary to supervise the creation, issue and circulation of coin. That is correct, is it not?—A. I am not familiar with it.

Q. You are not familiar with that?—A. Not from memory, no.

Q. I thought there would be no question about that.

Mr. VIEN: Might I suggest, Mr. Chairman, to Mr. McGeer at this point, that if it is a foundation leading to a series of questions to be put to Mr. Towers, it would be quite in order, but if it is only for the purpose of making argument here, it may be preferable to deal with Mr. Towers in the form of questions for the time being?

Mr. McGEER: What I want to do—

Mr. VIEN: I do not want to interrupt.

Mr. McGEER: What I want to do is to put on the record the sections that I think are important and upon which an argument may be made.

Mr. VIEN: I thought it was already understood that the act was to be printed as an appendix to the report.

Mr. McGEER: I am putting this on the record because I thought the members of the committee would wish to refer to it.

Mr. VIEN: All right.

Mr. McGEER: Section 4 of the act fixes the money value of the coins and sections 8 establishes their legal tender value.

By Mr McGeer:

Q. In the sections that I have referred to, Mr. Towers, we have the basis of the creation and issue, and within the limits that government can go, the regulation and circulation of coin money in Canada.—A. Yes.

Q. The next act which parliament has given similar authority to is the Bank of Canada Act. You are quite familiar with that?—A. I am familiar with that one.

Q. I should like to put on the record now the general duties of the Bank of Canada as they are defined in the preamble. May be it would be wrong to say duties, but hopes of service.—A. General objectives.

Q. General objectives?

Mr. VIEN: General functions.

By Mr McGeer:

Q. No, objectives would probably be the better term. The preamble reads as follows:—

> Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the dominion...

A. It is a work of genius. I may say at least one country, probably two, have borrowed from it when their draftsmen came to draw up something of that kind.

Q. Now, when we get to the powers of the act, we find them set out in section 21. I do not need to go into it, but it gives you almost unlimited power to buy and sell securities.—A. Within certain limits in respect to maturity, yes, and of course specified securities, dominion and provincial.

Q. They are a pretty wide range of banking securities?—A. Dominion and provincial direct and guaranteed.

Q. Some foreign?—A. In very strict limitations, some foreign ones, yes.

Q. And to buy and sell and rediscount all manner of exchange, promissory notes endorsed by chartered banks?—A. Yes.

Q. Which means that your power to loan to chartered banks is limited only to the type of security which the banks take in exchange for merchant advances? —A. Not quite, probably; but it does mean this, that having in mind the fact that the chartered banks are holders of very substantial amounts of securities which are eligible for pledge, and also have substantial loans of a character which can be rediscounted, that in effect the rediscount powers are very ample.

Q. As a matter of fact, you have power to make loans to banks on promissory notes?—A. Unsecured notes, no.

Q. But secured notes?—A. On promissory notes on the security of provincial and Dominion bonds.

By Mr. Vien:

Q. Can you rediscount commercial paper?—A. Yes, if it conforms with certain principles laid down in the act.

By Mr. McGeer:

Q. The point I want to get at is this: the type of security which you are permitted to take in exchange for advances to our merchant banks is abundantly available in our merchant banking system?—A. Yes, it is.

Q. There is no such thing as a difficulty for our Canadian banks to get whatever reasonable amount of Bank of Canada bills they want under these powers?—A. That is right.

Q. Now, section 2 prohibits you from accepting deposits and a number of other things.—A. In respect to deposits for a fixed term or paying interest on deposits, yes.

Q. You know the practice in Australia with reference to the Commonwealth Bank and the state banks? They do take deposits, don't they?—A. From private parties, yes. The state banks, of course, are not central banks in any sense. The Commonwealth Bank had been, practically speaking, a commercial bank before it gradually grew to being a central bank as well.

Q. As a matter of fact, the banking laws of Australia prevent merchant banks from taking savings bank accounts?—A. I was not aware of that.

Q. You are not aware of that?—A. No.

Q. You may check it, if you will.—A. Yes, I will.

[Mr. Graham Ford Towers.]

Q. Can you give me a statement of the amount of savings on deposit with Commonwealth banks? I have no doubt you have their report.—A. Yes.

Q. It is a very substantial amount?—A. Yes, it is.

Q. And the amount of interest they pay for those savings?—A. Or rather the rate of interest.

Q. The rate of interest, yes.

Mr. VIEN: Do you mean to say in Australia all savings must be deposited with the central bank?

Mr. McGEER: I think there is a slight qualification in that. In the main that is true, but I think there is a provision for a customer of the bank to carry a portion of his current account in what they call a "time" but not a savings account, but what we have defined as purely a savings account.

Mr. VIEN: As distinct from commercial?

Mr. McGEER: And a form of time account which we really treat as a savings account here. The restriction is that these savings must be deposited with the Commonwealth Bank or a branch of it, which indicates that after all the deposits on account with the merchants banking system as savings are not necessary to the merchant banks functioning as such.

Mr. TOWERS: Yes, they are, as the organization stands to-day.

By Mr. Howard:

Q. You mean under our system?—A. Under our organization I would say, so to speak. In other words, they have built up an organization and a chain of branches for that purpose, and the organization could not survive if the purpose disappeared.

Q. That is right.

Mr. VIEN: How do they proceed about it in Australia?

Mr. McGEER: As a matter of fact what they do is this: when a merchant bank wishes to make a loan or wishes to secure an asset, they do not go through ths process of going into their vaults and taking a portion of their own capital, nor do they go to an existing depositor's account and charge that account with any amount. They do create a new deposit account against that loan or purchase, and those transactions go on independently of whether there are savings on deposit or not.

By Mr. McGeer:

Q. That is correct, is it not?—A. I do not follow that, Mr. McGeer. I do not understand it at all so I am not in a position to reply. Perhaps when I read it in the record I may understand it. In any event, of course, there is no difference in that respect between Canada and Australia.

Q. No; I would say that is true. I would say if our merchant banks in Canada got rid of the cost of paying interest on savings it would release the merchant banking system from a very costly liability.—A. They would then, of course, also lose an equal amount of earning assets and the question would then be—

Q. I thought we agreed on that the other day.

By Mr. Vien:

Q. Does not it boil down to the question whether the Canadian merchant banks to-day are losing money or making money out of their savings departments?—A. That is it.

Q. Would it be true to suggest that the Canadian banking system, outside of the central bank, which has no savings accounts, is losing money?—A. No.

Q. Through the savings departments?—A. I would not think they are.

Q. Are they not making money through the savings departments?—A. Yes, I should say they are.

Q. They are paying $1\frac{1}{2}$ per cent on the deposits and they loan that money for other banking purposes?—A. They have loans and investments against those savings, yes.

By Mr. Howard:

Q. Mr. Towers, as a matter of fact I do not think that is quite the right answer. Is not this the case: when business is good in the country and the demand for money is large it is an asset to the merchant banks in Canada to have savings deposits. But in times of depression, when we have a money glut in the market as we have to-day, it is not so much of an asset. That is the reason why they vary the interest on their savings deposits.—A. Yes, because the amount which they earn from the employment of these savings deposits is being reduced.

Q. For instance, just along the same line, there are trust companies which take savings accounts and trust companies which do not take savings accounts; that question has been discussed time and time again, and the consensus of opinion is that it is better for trust companies not to take savings deposits, due to the up and down of the commercial tide of affairs.

By Mr. Vien:

Q. Even if they do adjust the rate of interest paid to the depositors on savings accounts, this adjustment just takes place for the purpose of retaining, for the bank, a certain amount of profit?—A. Yes.

Q. Out of that department?—A. Yes.

Q. And, therefore, if the suggestion which I understood to be made was carried out, namely, that the central bank alone would deal with savings accounts, we would deprive our merchant banks of a source of revenue?—A. You would do two things. You would deprive them of a source of revenue, because I would think that even now there is a small margin—smaller than it used to be, of course, but still a small margin—between the cost of the savings department and the earnings from the assets which they have against those savings. There is that small margin. Moreover, there is also the question of the branch organization and its overhead, part of which is borne by the savings activities. If you remove those savings activities, then, of course, you have to curtail your overhead by closing branches all over the place.

Q. Is it not a fact also that through our branch banking system we can draw to the head office surplus deposits in one branch to meet surplus demands for funds in other branches?—A. Deposits are taken where they are available. Loans and investments are made where they are demanded. Therefore, there is no rigidity whatever within the country. There is a flow from one end of the country to the other.

Q. Therefore, if you deprive the merchant banks of the privilege of receiving deposits in all their branches, you might curtail the flexibility of our banking system in the sense that a bank would not be able to draw from surplus deposits in one branch to meet demands for industrial loans in other districts.—A. Yes, that is true. The question would largely be whether the other organization created for that purpose re-supplied the flexibility. I do not know.

Mr. McGeer: Would you mind my putting this on the record at this point? I thought we agreed with the findings of the MacMillan committee the other day as to how bank deposits are created.

Mr. Towers: Yes, we did agree.

Mr. McGeer: I thought we did. Might I repeat this. At page 34, section 74—

[Mr. Graham Ford Towers.]

Mr. VIEN: The English report?

Mr. McGEER: The English report, yes. Section 74 reads as follows:—

> It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities, a bank creates a credit in its books, which is the equivalent of a deposit.

By Mr. McGeer:

Q. You agree with that?—A. I do. I was wondering what brought to your mind any possible disagreement, arising from anything I said recently.

Q. Probably I have not followed the discussion as closely as I might have, because I did not think we were in disagreement.—A. No; I am sure we are not.

Q. When a bank makes—to use the language of this section—a loan or grants a loan or allows money to be drawn on an overdraft or purchases securities, it creates its own deposit against the assets of that loan?—A. Not its own deposit; an amount owing to a depositor.

Q. Well, it creates the deposit?—A. It creates the liability.

Q. Which is its liability?—A. Yes.

Q. Which it exchanges for the asset of the borrower or the promise of the overdrawee or for the security which it purchases?—A. Yes.

Q. It does not use the accumulated deposits of the savings depositor. What they have found out, I think, in Australia is that the banks can use that deposit practice, without resorting to savings accounts.—A. Of course.

Q. And that is true?—A. Of course.

Q. And the Australian Commonwealth Bank— —A. But you then separate the two forms of organization. In the case that you mention, the use of deposits takes place in exactly the same way but they are called demand deposits or time deposits. They do not happen to be called savings deposits.

Q. As a matter of fact, we have that practice right here in Ontario to some extent—that is, I am referring to the practice in Australia—where the savings banks of the Ontario government take a large portion of the savings deposits of the people. I probably should not say a large portion, but a substantial amount.—A. Yes.

Q. Of the savings of the people of Ontario?—A. Yes.

Q. And that bank—that is the Ontario Savings Bank—pays what rate of interest to depositors now?—A. I am not sure whether it is $1\frac{1}{2}$ or 2 per cent.

Mr. LANDERYOU: It is more than $1\frac{1}{2}$ per cent.

Hon. Mr. LAWSON: $1\frac{1}{2}$ per cent in Ontario.

Mr. TOWERS: I think so.

Mr. LANDERYOU: I think it is more than that.

Mr. TOWERS: I think it is 2 per cent on small amounts, but I am not sure.

By Mr. McGeer:

Q. The savings bank of the province of Ontario in turn invests a substantial amount of those savings in Ontario government securities?—A. Yes.

Q. And gets that money for $1\frac{1}{2}$ per cent plus the cost of administration?—A. Yes.

Q. Which would not be very large?—A. Yes; that rate is $1\frac{1}{2}$ per cent for accounts under \$10,000; it is 1 per cent for those over \$10,000.

Q. How much is on deposit?—A. I have not got that here; but it is about \$40,000,000, I believe.

Q. About \$40,000,000?—A. Yes.

Q. As a matter of fact, that money is invested in long term province of Ontario securities, is it not?—A. I do not know. There may be a statement in the public accounts, but I do not recall it.

Q. In any event, it is not essential to a merchant bank's power to finance loans, overdrafts or purchase securities to have savings deposits on hand, because the merchant banks can finance loans and overdrafts and the purchase of securities by the creation of new deposits.

Mr. TAYLOR (Nanaimo): Mr. Chairman, may I ask a question?

Mr. McGEER: Might I get an answer?

Mr. TAYLOR: I should like to ask a question right there.

By Mr. Taylor:

Q. Is not that possible by virtue of the deposits of the trading accounts in merchant banks?—A. And of the savings accounts.

Q. No, eliminating the savings accounts which Mr. McGeer is attempting to discuss. He wants to provide that there shall be elimination of the savings accounts.

Mr. McGEER: Might I put my question again, because I think there has been a misconception. I quite appreciate the existence of trading accounts which would still remain with the banks if the savings accounts went out. I mean, there would not be any interference with the trading accounts. For instance, if a man has a current account of $10,000, and a savings account of $5,000, if he puts the savings account—as he does in Australia—in the commonwealth bank, he leaves the $10,000 current account with the merchant bank.

Mr. TAYLOR: Which is sufficient for the merchant bank's purposes.

Mr. McGEER: Yes; that is what I say. But the question I asked, if you will follow me, was right in line with your own reasoning, I think. The merchant bank can finance a loan, an overdraft and the purchase of securities without resorting to savings deposits on hand, because the bank can create against the asset of that loan, against the asset of the overdraft or against the asset of the security to be purchased, a new deposit.

By Mr. McGeer:

Q. That is correct, is it not, Mr. Towers?—A. I think that how we started on the question of the creation of deposits was due to the fact that I said that if the savings bank business was divorced from the chartered banks, they would hand over presumably $1,660,,000,000 in savings to some new organization formed for that purpose, and at the same time would have to hand over $1,660,000,000 of their assets; which means that they would have to hand over all their securities and also some of their loans. They would have left, so to speak, the shell of their former selves, with some $734,000,000 in deposits, and allowing for their capital, I suppose about $900,000,000 in assets; they would have most of their loans left, but not all, and nothing else.

Q. And they would have all the assets of their loans?—A. I beg your pardon?

Q. For instance, they would have all the assets of their loans?—A. They have handed over the assets in the from of investments and loans which pertain to the savings deposits. They have handed those over to the new organization.

Q. But apparently you do not segregate between the assets which come to the bank against its loans or investments?—A. Loan or investment?

Q. Loan or investment or overdraft.—A. Savings accounts are in that category just the same as demand accounts, by definition in the MacMillan commission report.

[Mr. Graham Ford Towers.]

Q. There may be some assets purchased against deposits?—A. They all are.

Q. They are in the form of savings accounts, but they are certainly not loans.—A. Yes.

Q. How could you get that? For instance, tell me the process you go through. I may go to the bank and make a deposit, and the bank then secures, without using that deposit, an asset against it.—A. You make a deposit and the bank secures an asset? That is not the way it happens, because when you make a deposit you are depositing a cheque from someone else.

Q. Yes.—A. The asset is already in existence; and when you make your deposit, it is simply the transfer between one deposit account and another. Where the deposit is created at the time of the purchase of the investment or making of the loan, at that stage—and let us say it is a $1,000 loan made to a man—the bank has an asset in the form of that man's obligation to pay; it has a liability in the form of a $1,000 balance in that man's favour in a demand deposit account. The man uses that money. He has borrowed it for that purpose. You will find that as he spends it, that a portion of the amount which he so spends will gradually find its way into other people's savings accounts. So to take the balance sheets of the combined banks and say that their loans, for example, were responsible for demand deposits and their investments for savings, would be a wrong conception. Their total assets are in that sense responsible for the total amount of their deposits, whether savings or demand. If it is desired to divorce that business of savings from the chartered banks, the only way it can be done would be to set up a new organization with branches all across the country and to have that organization take over the deposits from the chartered banks and at the same time take over $1,660,000,000 of the chartered banks' assets. If there is something to be gained by that of course it is not theoretically impossible. But what there is to be gained, I do not yet follow; I expect you have in mind developing it.

Q. You have information in your office as regards the Australian banking system?—A. Yes.

Q. Would you mind preparing for us a statement as to just what the position is with reference to savings in the Commonwealth Bank of Australia?—A. Yes.

The CHAIRMAN: I have it here. I will hand it to you.

Mr. McGEER: What is that?

The CHAIRMAN: It is a list.

Mr. McGEER: I mean, that is the statistical record.

The CHAIRMAN: It is a list of the Australian banking statistics, the ten trading banks; and gives the deposits bearing interest and the deposits not bearing interest, year by year, down to 1936. So that in 1936 the trading banks had deposits bearing interest and deposits not bearing interest.

By Mr. McGeer:

Q. Well now, if Mr. Towers will get us a statement of the situation in Australia with reference to savings accounts, and whatever information the Governor thinks is pertinent on the Australian practice as contrasted with our own?—A. Yes.

Q. Because we have, of course, savings accounts in our chartered banks to a total of $1,691,000,000, while the total assets of the banks are $3,421,000,000.—A. Both foreign and Canadian.

Q. Yes.

Mr. VIEN: What I would like to ask Mr. McGeer, Mr. Chairman, would be this: What advantage does he suggest that such a step, divorcing the savings business from the ordinary commercial activities of our chartered banks, would produce for Canada?

By Mr. McGeer:

Q. I think it is two-fold. I think it would place at the disposal of the government a very large sum of money which would be less costly than the government is paying for money to-day, with the security of the nation behind savings accounts.—A. How would it do that, Mr. McGeer?

Q. Give the security of the nation, do you mean?—A. How would it place it at the disposal of the government?

Q. The government savings bank could invest as a bank the deposits in the savings bank, just as I understand the Commonwealth Bank of Australia to do; they place funds at the disposal of the government for investment in government securities.—A. In the first instance, there would be nothing to adjust. When you set up a new organization it would take over the $1,660,000,000 of deposits, and $1,660,000,000 in the form of assets transferred, then in the form of government bonds, I imagine. Where do we go from there?

Q. Just where they have gone in Australia, and just where they have gone in the Savings Bank of Ontario, and just where they have gone in the Municipal Bank of Birmingham.—A. Yes. Well then, in that case, the bank, shall we say, has been making additional loans which are first of all paid into demand deposit accounts. Some people who receive these chartered bank cheques decide that they will deposit them in some savings bank. The government savings bank then has a claim on the commercial bank and can, if the deposits are in the process of increasing generally, add somewhat to its assets in the form of government bonds?

Q. Yes, but if those bonds are deposited with the Bank of Canada the interest payable on those bonds is paid to the Bank of Canada and it becomes the owner of whatever securities are transferred from the merchant banks with these savings accounts?—A. Yes, in that first transfer there is a liability to the depositor, interest on it has to be paid, there are the earnings on the securities which have been taken over, and then there is the cost of operation.

Q. For instance, the Bank of Canada being a public-owned body, any difference between the rate of interest payable on these bonds which are held as security for savings and the amount paid in interest to the depositor is profit to the bank?—A. Less the operating charges.

Q. And the operating charges.

Mr. VIEN: The question would be, how much it would cost to set up operating organizations to provide for that and compare the difference between what we pay to the banking system and what we got from the investments on their deposits plus—that is, what we pay to the depositors for operating charges, deducted from the revenue derived from the investment.

By Mr. Vien:

Q. Now, where can we get in Canada any accurate information as to these three factors?—A. Absolutely accurate information I think would be impossible to get.

Q. Are there any reports of the operations of the Ontario Savings Bank?—A. I think there are brief ones, and I will look those up.

Q. It might be interesting to find out what the government of Ontario derives from this system of operation?—A. Yes. I do not know whether they are in a form which will really show the operating expenses.

Q. Possibly not.

[Mr. Graham Ford Towers.]

By the Chairman:

Q. Would the government have their branches all over the country?—A. Oh yes, all over the country.

The CHAIRMAN: Mr. McGeer, would you consider establishing branches all over the country?

Mr. McGEER: Well, I am merely dealing with one phase of it. I think that thing would come in later.

By Hon. Mr. Lawson:

Q. Might I ask a question dealing with that phase of it? As I understand it, if Mr. McGeer's scheme were put into effect, with the government bank taking all savings deposits, would that mean that the money was costing the government one and one-half per cent which they paid the depositor as interest, plus whatever were the administration charges on having a nation-wide banking system; would that be correct?—A. That would be correct.

Mr. McGEER: Nation-wide savings bank

Hon. Mr. LAWSON: A system such as that, I mean.

By Mr. McGeer:

Q. As a matter of fact, the success of the branches in Australia is I think in doubt; certainly the success of the Ontario system is reputed to be very effective?—A. Well, of course, it is just a question there, of how much this scheme costs you.

Hon. Mr. LAWSON: It would not cost more than it does in Australia.

By Mr. McGeer:

Q. I quite agree, that is a matter for checking and determination?—A. Yes.

By Mr. Vien:

Q. What I am saying is that because these practices have developed there we have that consideration; and if you have any information about that I would like to have it?—A. Yes.

Q. As I said, it would seem that the operation of a savings branch through the chartered banks would be cheaper than to have another set-up created by the government, which would involve a great deal of expense?

Mr. McGEER: Of course, that is pure speculation.

Mr. VIEN: Is it purely speculation? May we not visualize actually that in every centre where depositors might be found there would have to be created an agency to receive deposits?

By Mr. McGeer:

Q. I did not mean to be controversial on that thing. What I mean to say is that until you are in possession of the record of performance no one could give us what these things are costing, the difference in the cost and overhead varies greatly with the volume of business you do, and the volume of business in Canada— —A. That is right. That is why overheads are high in Canada in relation to some other countries.

Q. I can agree to that; but one of our problems here is to provide a banking service for the very widespread distribution of our Canadian communities? —A. That is right.

The CHAIRMAN: Before you go on, might I just put this on the record, that the ten trading banks in Australia, including New Zealand, collected savings deposits bearing interest to the extent of 182,000,000 Australian pounds,

and deposits not bearing interest to the extent of 109,000,000 Australian pounds; making a deposit total of 291 million Australian pounds.

Mr. McGeer: Have you got some figure there as to the amount of the savings of the Commonwealth bank?

The Chairman: No, I was just given these. These were the ten trading banks, including the Bank of New Zealand.

Hon. Mr. Lawson: They must have some other deposits.

The Chairman: That is obvious.

Mr. McGeer: I would say it is not obvious, because of what I pointed out to the committee before. I understand that there is a type of thing which is classified as a straight savings account and that is reserved to the Commonwealth Bank. I do say that I have not had the suggestions before me. I will be very glad to examine them and deal with them. I did not say there was no such thing as a time deposit in the Australian banks. I think there is, but I think that the common practice is to define between the current accounts and time accounts, and what they call them is savings accounts.

The Chairman: I have given the two types here, and the total amounts to 291,000,000 Australian pounds. Now, that is a pretty big savings deposit for a country with less than 7,000,000 people.

Mr. Vien: I think they are giving there the amount of savings in the Commonwealth bank.

The Chairman: No, I will look it up. It would not be very much in addition to that, or else the Australians are a very saving people.

Mr. Vien: For the purposes of the record, should we have the name of the book from which you are reading?

The Chairman: Yes, Economic Planning in Australia, 1929-1936, by W. R. MacLaurin, page 121.

By Hon. Mr. Lawson:

Q. At some convenient time would Mr. Towers put on the record what is the amount now deposited by the people in the Post Office Department of Canada, which is a form of savings banks, and what rate of interest they pay?—A. I may say it is 2 per cent.

Q. Further to that, could we have such information as may be available produced in connection with the operation of the Ontario Provincial Savings Bank?—A. I will locate as much information as there is in the public accounts and make it available.

By Mr. McGeer:

Q. You might also include in that statement the savings deposits of the Commonwealth Bank of Australia which we have already asked for?—A. Yes.

Q. Another item which would go happily with that would be the amount of deposit with the Post Office banks in England?—A. Yes.

Mr. Vien: Could we have also somebody from the chartered banks, or from the Canadian Bankers' Association, to express an opinion on the advisability of such an operation or change in our establishment?

The Chairman: That is at the pleasure of the committee.

Mr. Landeryou: Mr. McGeer, would you deal with the power of the commercial bank to create new deposits by making loans, granting overdrafts and purchasing securities?

Hon. Mr. Lawson: Surely we have had that so often.

[Mr. Graham Ford Towers.]

Mr. LANDERYOU: ——providing there has been a national savings bank established and the savings deposits have been transferred from the commercial banks to the national savings bank?

Mr. McGEER: I was coming to that. Mr. Vien asked me to indicate what benefits I thought would flow. I suggested one. The other would be that the merchants' banks would be relieved of the cost of paying interest on deposits whether they could invest with any profit or not.

Mr. TOWERS: They would also be relieved of assets, too.

Mr. McGEER: I put that qualification, whether they could make an investment or not.

By Mr. McGeer:

Q. Now, if a savings bank deposit is taken at the rate payable by the bank, $1\frac{1}{2}$ per cent, and it is lent again at 6 per cent, of course, there ought to be a profit in that, because we used to have 3 per cent on savings bank accounts and even higher rates for bank loans than we have to-day, but the drop in our current rates on bank loans has not been proportionate to the drop in the rate paid on savings accounts?—A. That is right. The amount of commercial bank loans has dropped. The amount they have had to invest in government securities has greatly increased, and incidently there is that question of overhead which enters into it. For example, if during the more expensive times of operation bank operating costs were about $2\frac{1}{2}$ per cent—$2.50 for $100 of assets at that time—suppose they pay 3 per cent on savings, the total operating costs are $5\frac{1}{2}$ per cent. Now, suppose that overhead has been brought down to 2 per cent or a shade less, and savings to $1\frac{1}{2}$ per cent, you have an operating cost of $3\frac{1}{2}$ per cent instead of $5\frac{1}{2}$ per cent. In other words, a reduction of 50 per cent in the interest paid on savings has not meant the reduction of 50 per cent on the total cost of operation, overhead and interest.

By Hon. Mr. Lawson:

Q. Would not the aggregate net earnings of the commercial banks in any one year compared to the rate of interest paid on time deposits give us a key as to whether or not banks were making more or less money on a higher or lower rate of interest on loans?—A. Perhaps I do not quite follow that.

Q. For example, Mr. McGeer used the figure of $1\frac{1}{2}$ per cent for time deposits and 6 per cent as the charge for loans. That is very confusing, because if I owed a bank money I might pay 5 per cent on some of it because it is collaterally secured and I might pay $5\frac{1}{2}$ per cent on other loans that are not secured collaterally. On short-term loans I think I saw recently that the dominion is borrowing money at three-quarters of 1 per cent, so that you would have to get an average rate.—A. Yes, you would. The average rate I would guess is something in the neighbourhood of 3 per cent.

Q. What would the average rate be at the time they were paying 3 per cent? Would it not be correspondingly higher?—A. As they had a much larger volume of loans then and a much smaller volume of other securities their average might have been $4\frac{1}{2}$ or 5 per cent.

The CHAIRMAN: Before Mr. McGeer continues I have obtained some further information on the Australian subject. The amount of deposits with the Commonwealth Bank increased from June, 1929, from £43,000,000 sterling to £83,000,000 sterling in 1934. There is this note:

> The most significant change for the period 1929 to 1934 was the increase in the deposits in the banking system of the Commonwealth Bank. About half this increase came from the balance of the trading banks with the Commonwealth Bank.

Mr. TOWERS: Mr. Chairman, I do not want to side-step anything, but I just wonder whether this very subject, that is, the proposal to divorce the savings business from the chartered banks and undertake it by the government, is something on which I should express views on the pros and cons. It has nothing to do with monetary policy, of course. It is a question of national policy, surely. And, frankly, I am neither a commercial banker nor am I the government, and I would find it a bit embarrassing to express an opinion.

Mr. HOWARD: Except from your wide banking experience.

Mr. MCGEER: The only thing about it is that I was dealing with a section of the Act which prohibits the Bank of Canada from taking savings, time deposits or paying anything for deposits.

Hon. Mr. LAWSON: I think it would be unfair to ask Mr. Towers to express an opinion.

Mr. VIEN: I think what Mr. McGeer has said clearly shows that this is within our order of reference, but I think, as Mr. Towers said, it is very unfair and I would suggest to Mr. McGeer that it would probably be unreasonable to press the question very much further, inasmuch as Mr. Towers is not here to advise on the advisability of such a step being taken.

The CHAIRMAN: I doubt if Mr. McGeer is going to press that point.

Mr. MCGEER: I did not ask for that, but I thought Mr. Towers might have some information that the committee could deal with and form its own opinion, because, after all, if this committee is here for any purpose it is for the purpose of making recommendations as to changes in the existing legislation or the transfer of it, one or the other. But I have not asked Mr. Towers to express an opinion as to whether it would be a good or bad thing. I should not think anybody could make that observation without making a very exhaustive survey.

Mr. TOWERS: We shall bring to the committee those facts you wanted to obtain, Mr. McGeer.

By Mr. McGeer:

Q. Yes, anything you have available.—A. Yes.

By Mr. Howard:

Q. Mr. Towers, when the Manitoba Savings Bank closed its doors or got into financial difficulty, was it due to loans made to customers or to the government? Possibly you do not know but, if you do, I should like to have that information.—A. My recollection is that the assets of the Manitoba Savings Bank were almost entirely in obligations of the Manitoba government. There were disturbances in Winnipeg at that time. I think sections of the foreign population in particular, who constituted the vast majority of the depositors in the Manitoba Savings Bank, got disturbed. They perhaps had not been long enough in Canada to be quite satisfied in regard to banking matters.

Q. In other words, to recognize our stability?—A. And they wanted cash. It caused embarrassment in so far as the Manitoba government was concerned, and they made arrangements to have the bank taken over.

By Hon. Mr. Lawson:

Q. In other words, the provincial savings bank loans were not balanced in respect of commercial securities and government securities, and so forth?—A. All the eggs were in one basket.

Mr. MCGEER: I do not know that we want to get into that interesting episode of Canadian banking.

Mr. Towers: Of course, the same situation arose in Alberta only in that case the bank has never been taken over. It remains with its doors closed, so to speak.

By Mr. McGeer:

Q. The next section which deals with matters pertinent to the inquiry is section 23, which makes the Bank of Canada the fiscal agent of the Dominion government and authorizes the bank on the request of the provincial governments to become their fiscal agent as well.—A. It says, "shall act as fiscal agent of the government of Canada without charge and, subject to the provisions of this Act, by agreement may also act as banker or fiscal agent of the government of any province.

Q. You have taken over the administration of the Dominion's debt?—A. Yes.

Q. Have you taken over the administration of any of the provincial debts?—A. No, we have never been requested to do so.

Q. You have never been requested to act as the banker or fiscal agent of any provincial government as yet?—A. Never.

Q. That service is available without charge?—A. The Act says without charge in respect to the Dominion. I take it therefore that the implication is that there would be a charge in respect to the provinces.

Q. You have no power to act for municipalities?—A. No.

Q. Section 24 is the section under which you get your power to issue notes?—A. Yes.

Q. That section also makes the notes legal tender?—A. Yes.

Q. Section 25 provides for the redemption of notes in gold bars of 400 ounces?—A. Yes.

Q. And the redemption of notes, even in gold bars of 400 ounces, is suspensible by Order in Council?—A. Yes.

Q. Section 26 is the reserve section which provides for a 25 per cent of reserve of gold against your deposits and bank notes in issue.—A. Yes.

Q. That is also suspensible by the Governor in Council for periods of sixty days and completely suspensible by parliament?—A. Yes.

By Mr. Vien:

Q. Is there any limitation on your gold purchases?—A. No.

By Mr. McGeer:

Q. So that that Act, taken along with the Currency Act, provides for the creation and issue of money in the form of coins and paper notes with the exception of the merchant bank notes in use in the Dominion of Canada?—A. Yes.

Q. Therefore our Canadian money is a creature of our parliamentary laws?—A. Yes.

Q. It is the parliament of Canada which says by law what Canadian money is, how Canadian money is created and the manner of its issue into circulation?—A. The manner implying the various restrictions, provisions, etc., etc., yes.

Q. So that Canadian money is the creature of Canadian law.—A. Undoubtedly.

Q. The next Act under which we create and issue money is the Bank Act, is it not?

By Mr. Vien:

Q. On this point, when you buy Dominion or provincial securities are you obliged to keep the gold coverage on the Bank of Canada notes that are issued in payment of these securities?—A. Yes.

Mr. McGEER: Because that would be an issue.

By Mr. Vien:

Q. If I have $10,000 of Dominion bonds and I discount them or sell them —A. Sell them.

Q. — and you redeem them, you can redeem them with Bank of Canada notes?—A. Well, we purchase from you, shall we say, and give you in return an exchange, Bank of Canada notes, or, what is the equivalent, a deposit in the Bank of Canada.

Q. The bonds of Canada or the provincial bonds are not held as coverage for the issuance of notes?—A. They can be to the extent of 75 per cent.

Q. Yes, because you carry only 25 per cent gold coverage.—A. That is the legal minimum provision.

Q. If I understood rightly your coverage is in the neighbourhood of?—A. Fifty.

Q. Even at fifty you could buy all the gold in Canada or elsewhere and issue twice as many notes?—A. Yes.

Q. As you would buy gold for?—A. Yes.

Q. And this marginal amount of notes could be used for public purposes?—A. Assuming that it was being advanced to the government, yes.

Q. For instance, if you bought a billion dollars in gold bullion that would provide coverage for— —A. We could buy a billion dollars in gold bullion, making an advance to the government of a billion dollars and issue two billion dollars in notes.

Q. More than that, because you have $3,000,000,000; you could issue $3,000,000,000 in notes?—A. On the basis of the 25 per cent legal minimum, yes. We could buy one billion dollars in gold bullion, make an advance to the government of three billion and issue four billion in notes.

Q. Is there any governing factor to determine to what extent you should go along that line?—A. The general direction is that we should go as far as we think it is desirable to promote the general interests of the country in so far as that may be possible within the scope of monetary action.

Q. Suppose, for instance, we want to build the Supreme Court of Canada, could you not buy a certain amount of gold to provide coverage?—A. As matters stand right now we would not need to buy any more gold because there is quite an ample margin of coverage.

By Mr. McGeer:

Q. To make what Mr. Vien brought out realistic we could purchase the $160,000,000 of gold production in Canada for $160,000,000 of Bank of Canada notes?—A. Assuming that our currency was at par with the United States, that would be true.

Q. Well, it is at par with the United States.—A. Practically.

Q. I am talking of to-day's situation.—A. Yes.

Q. And we could issue against that $160,000,000 another three times its value.—A. Oh, yes. As you remember, in previous meetings, we have agreed that in so far as scope is concerned you could issue billions.

Q. We have $160,000,000 of gold production, and if we carried the power given by parliament— —A. We also have agreed that the gold end of it is not the important factor from the point of view of domestic currency, and I would not be restrained by gold in thinking of the possibilities of issue. I would say, "Let us forget about having any gold and still issue billions."

By Mr. Vien:

Q. I am thinking of the stability of our currency in the international market. —A. The stability of our currency will be determined by the size of the issue irrespective of any gold that we may hold.

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Q. Would that be true? For instance, would you say that irrespective of my gold coverage, the volume of my notes in circulation— —A. Well, the value of those notes will be affected if the issue is an excessive one quite apart from the amount of gold which one may hold.

Q. I am not quite clear as to where the foot rule is by which to measure that. —A. The foot rule to determine whether the quantity is excessive or is not excessive?

Q. Yes.—A. There is no rule of thumb. One can only go on the signs of the times, on developments in markets, on developments in prices, on variations in velocity, and the desire to spend, as well as a thousand and one things like that; then, combining as much information as possible along those lines, try to interpret it in the proper way.

Q. My idea was to ascertain to what extent we could operate on that basis for the payment of government expenses instead of proceeding by way of the issuance of bonds.—A. Yes. We did contribute a memorandum, that you may remember, which expressed the best views we could.

Q. It covered that specific point?—A. It covered that specific point, yes.

By Mr. McGeer:

Q. We have that on the record. The fact is that with our present gold provision, if we resorted to the issuing of currency against it, under the provision of the Bank of Canada Act we could have issued another $480,000,000 a year?—A. I should think that proceeding to increase your issue in that way would have been even more disturbing than if you did not buy the gold.

Q. I am not dealing with the disturbing factor. I say, under the law as it stands we can do that. What the result of that would be is another issue.—A. Yes.

By Mr. Tucker:

Q. You said something that I did not understand. You said providing our money was on a parity with the U.S. money?—A. I was simply speaking of the amount payable to the gold producers.

Q. Suppose it was not on a parity and that you exported your gold without a permit?—A. Well, that would be a matter of government policy. The question has never arisen, of course, because the government has always paid to the gold producers the amount that they could obtain, say in U.S. dollars plus any premium on U.S. dollars. Now, I cannot speak of what the policy might be or how that policy might be changed. If U.S. dollars were at a premium of 20 per cent in Canada, would the government force the gold producers to take $35 Canadian, per ounce? I do not know; they never have.

Q. But they could, of course?—A. I suppose the producers would have something to say about that. If their voice is as nothing in the land—

Q. The money of the Bank of Canada would be legal tender. If they could not sell outside the country, they would not want to pile up gold in the meantime; they would have to sell to somebody.—A. I suppose the government could force people in the country to do anything they want so long as they were not encroaching on property and civil rights. I am not sure about that.

The CHAIRMAN: Suppose you let Mr. McGeer finish his examination.

Mr. TOWERS: However, that would not be a monetary matter, really; it would be a question of a fight between the government and the gold producers.

By Mr. McGeer:

Q. Whether or not the government could in fact adopt a law to compel the sale of gold at a price fixed by the government— —A. Yes.

Q. —is not a matter that we can deal with, because there is so such law in existence.—A. No.

Q. The situation to-day is that the government has agreed to pay to the producer the price that the producer could procure if he had free export privileges?—A. That is right.

Q. And that is the policy. But our money being on a par with that of the United States is not a material consideration?—A. Not on the basis of what you suggest, what you were mentioning a moment ago; that is, suppose we should buy all the gold and issue currency against that. I said I thought the effects might be even more disturbing than if we made the issue without getting the gold. That remark arose from this thought. The withdrawal of $160,000,000 of exports from the market—$160,000,000 of foreign exchange—I am using the $160,000,000 figure of gold production although I know it is higher now—would inevitably produce a discount on the Canadian dollar.

Q. That is providing the Canadian inflationary program got to the point of disturbing prices and wages and working conditions in the Dominion?—A. I think that if the issue of currency produced an inflationary effect you would have a discount on the dollar. But even before anything like that happened I think that the withdrawal of $160,000,000 a year of exports would in itself produce a discount on the dollar; therefore there would be the double effect there.

By Mr. Vien:

Q. It would create an unfavourable balance of trade to that extent?—A. It would reduce your foreign resources by that amount.

By Mr. McGeer:

Q. Unless as a result of the internal activity in Canada you increase— —A. Other things to replace the gold.

Q. You increase the sale of goods abroad and decrease the purchase of goods abroad. I mean, all these factors would have to be considered.—A. Yes. They do not sound very possible, or in some cases even very favourable factors. To me personally, I think the export of gold to swell the favourable balance of payments and the use of the balance to repatriate some of the very large amounts of Canadian debts which are held abroad, is probably a very good policy in large measure.

Q. I think we can probably agree on this, that while that may be a theoretical possibility, if we wanted to increase the currency spreading power of the government there are possibly cheaper and better ways to do it than by issuing currency against gold?—A. Just leave out the gold.

Q. Yes.

By Mr. Tucker:

Q. Just along those lines, if Mr. McGeer will permit me, we are actually to-day using our gold powers to keep our money at a premium as compared with sterling, and working it against the exporters of butter, cheese, bacon, and wheat, so that we are using our gold exports against our other primary producers?—A. I would not say gold exports specifically; I would say all our exports.

Q. But gold up to now has been regarded as a monetary matter?—A. I do not know by whom, Mr. Tucker.

Q. Until very recently gold was regarded as a matter of money rather than on the same basis as cheese or butter?—A. Well, maybe there are people who do so. I must say I certainly have not had any illusion on that subject for many years.

Q. It is true if you were using that gold now just the same as a commodity there would be the tendency for our money to actually be on a parity with sterling instead of being at a premium to-day which cuts the price that all our

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other producers are getting for their products?—A. All exports have a tendency to support the foreign exchange value of Canadian currency, and gold is one of those exports. If one agreed to cut off a substantial quantity of exports of any commodity you would tend to produce that effect.

Q. That is one way in which we can fix our money on a parity with sterling, by cutting off gold?

The CHAIRMAN: Or wheat.

By Mr. Tucker:

Q. Gold is one thing we can export at any time to any one.

Mr. McGEER: I think that probably is a matter for argument.

Mr. TOWERS: Will you give me one second? I do not think that it was ever suggested that it would be impossible by various ways and means to depreciate Canadian currency.

By Mr. Tucker:

Q. Our farmers cannot understand why you are allowing our currency to be kept at parity with the United States as compared with sterling.—A. The currency has found its own level on the market, and of course, any action in that respect would certainly be a matter of governmental policy.—A. So far through history the Canadian dollar has found its own level.

Mr. HOWARD: We would have some job to put it down if the Americans did not consent to it.

By Mr. McGeer:

Q. That is by monetary action?—A. By monetary action.

By Mr. Tucker:

Q. Are you not deliberately affecting it every time you give a permit to export gold?

Mr. HOWARD: No.

Mr. TOWERS: Or wheat or bacon or anything else.

By Mr. Tucker:

Q. We do not have to give a permit to export wheat or bacon but we have to give a permit to export gold.—A. You could change the system, where you would only export bacon by licence.

Q. We have not got that. Every time the government gives a permit to export gold it is actually operating to keep our dollar at a high price compared with other currency.—A. If the government repealed that arrangement, by which they have to give a permit, would that cure the situation?

Q. Well, they have that power and are exercising it, and the way they are doing it they are actually consciously operating to keep our money at a premium compared with sterling?—A. Well, the government would have to speak on that; I think it is very far-fetched.

By Mr. Vien:

Q. There are other results that would follow in addition to that; if the Canadian dollar found its own level on a parity with the pound sterling and depreciated with respect to the American dollar; we would have to pay much higher for what we purchase in the United States and we would receive much less to the same extent for the goods that we sell on the American market.—A. As we pointed out in earlier memoranda, the effect of exchange depreciation is an internal transfer. Mr. Tucker feels that internal transfer from one section

of Canada to another, or from certain people to others, would be beneficial. I could mention pros and cons. I can say that it is an internal transfer, so that if one accepts that view, it is possible for members of the committee to consider it; but, of course, I should stop absolutely short of expressing opinions in regard to policy. The limit of my usefulness to the committee, if any, is in trying to show the results of exchange depreciation.

By Mr. McGeer:

Q. In any event, that is a matter to be determined in the light of a great many factors.—A. Yes.

Q. There is our debt position in the United States, which very materially changes the picture as between Canada's position in controlling its own exchange and that which exists between Australia and New Zealand, where most of the debts are in England and where there is an agreement probably between the Bank of England and the banks of Australia and New Zealand.—A. No, there are no such agreements.

Q. No fixed agreements?—A. No, and there is no measure of difference between those two situations except this very important one: Australia and New Zealand have only one other currency to consider which vitally affects their life, so to speak; that is sterling; whereas Canada is in the peculiar position of being vitally interested in two foreign currencies.

Q. Australia and New Zealand are tied to sterling?—A. Yes.

Q. Whereas we— —A. We are divided.

Q. Between the American dollar and the pound system?—A. And the level of both of these has strong internal repercussions in Canada.

Q. And our close proximity to the United States is another one?—A. That is a factor in some ways.

Q. Now, the next thing I want to deal with on the creation and issue of Canadian money is the Bank Act, and I think that on the creation of bank deposits subsection (4) of section 59 is the ruling section, is it not?—A. Section 4?

Q. Chapter 24. Might I have the Bank of Canada Act attached to the evidence to-day as an appendix to make the record complete?

The Chairman: You mean to print it?

Mr. McGeer: Yes.

Mr. Towers: This is the office consolidation of the act.

Mr. McGeer: I do not think you need to include the amendments, as they only involve a change from private ownership to public ownership.

Mr. Towers: Of course, the office consolidation includes all the amendments.

Mr. McGeer: I suggest to the committee these figures go out to the public. The people are impressed, but they have not always got a copy of the act and it is not intelligible unless they have a copy of the act before them. For my own purposes of reference I should like this record to be complete. I should like it to include these acts.

Mr. Howard: I think that is a good idea.

The Chairman: Is that the opinion of the committee?

Suggestion agreed to.

Mr. McGeer: I do not think we need to include the Bank Act because I think there are only two sections that are of importance. I think subsection (4) of section 59 of the Bank Act of 1934 is an important one, and that provides that subject to the provision of the Bank of Canada Act the banks shall maintain a reserve which shall be not less than 5 per cent of its deposit liabilities within Canada. Now, that reserve provision carries with it by implication the right to issue bank deposits, does it not?

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Mr. TOWERS: The right to make investments and loans, which in turn will create liabilities in the form of bank deposits.

By Mr. McGeer:

Q. That is, if I may be permitted to use my own language, the power of the banks to issue deposits as a substitute for Canadian money?—A. I think I will stick to my language.

Q. I thought you agreed with that? I do not think there is any dispute about that now, is there?—A. No.

Mr. HOWARD: You agree; but your English is different.

By Mr. McGeer:

Q. Is there any other provision that you know of in our banking laws that authorizes the banks to create deposits for the purpose of financing loans, overdrafts and purchasing securities?—A. I think the shoe is on the wrong foot —create deposits for the purpose of financing loans. I think that they make a loan and credit the proceeds of that to the individual in a deposit account; if they find that he does not withdraw that in cash, all right, that process of banking that you are thinking of can go on. But as for the question of authorizing that, I think you will find the authorization is in various sections of the Act where it says they can make investments, that they can make loans.

Q. I see.—A. And they can also take deposits. In the process of making investments and loans in accordance with the authorization as contained in the Bank Act, they will find that they will have certain deposits on their books, automatically, unless the people withdraw the proceeds.

Q. Yes. The banks have certain forms of capital which are available to them to make loans on. For instance, the paid up capital of the bank is one thing?—A. Yes.

Q. If a bank is going to secure a charter from the government to sell stock in the banking corporation and raise capital as any other corporation does— —A. Yes.

Q. —then it would require those powers to make loans and to purchase assets as a power of the corporation?—A. Yes.

Q. So that those powers are there for that purpose?—A. And for the other purpose as well, no doubt.

Q. We will come to that. The other form of capital which the banks have the use of is the kind of capital that is brought to them by individuals and deposited with them as the individual's money in the bank?—A. Legal tender, you mean?

Q. Yes; whenever I make a deposit in the bank I deposit legal tender.—A. Thinking of the banking system as a whole, the only way in which they can obtain cash in that sense from individuals is when the individual does deposit legal tender in the form of Bank of Canada notes or gold.

Q. Suppose I come from a foreign land, and I come with American money?—A. That will not be any good as a cash reserve.

Q. What is that?—A. That will not be any good to the bank as a cash reserve.

Q. No. But what I say is this: I deposit that cash with a Canadian bank.—A. Not in a Canadian dollar deposit account.

Q. Well, I put up that deposit.—A. No, excuse me. The first thing you do in that case is you say to the banks: "Can you sell these American notes for me to someone who will give me Canadian dollars for them? If so, credit those Canadian dollars to my deposit account".

Q. Yes, that is actually what happens. But to-day with our exchange facilities as they are, when I come back from a trip to the United States and I happen to have any American cash left over—

Mr. Howard: You are lucky if you do.

Mr. McGeer: I mean, this is a reality that happens every day.

Mr. Towers: Yes.

By Mr. McGeer:

Q. I simply hand that American cash in with whatever other deposits I am making, and it is accepted as such. Now it is true that the Canadian banks immediately convert that American money into Canadian money?—A. Yes.

Q. And it becomes legal tender cash?—A. No. It becomes a deposit in your account.

Q. Yes. But suppose I— —A. And it has come from someone else's deposit account into yours.

Q. Well, we will take the transaction as I would do it myself if I wanted to make a deposit without the banks making it?—A. Yes.

Q. I will go into my bank and ask for legal tender cash.—A. What would you give them in exchange?

Q. I would give them my check against my deposit?—A. Yes.

Q. And they would hand me legal tender cash?—A. Yes.

Q. And I would take that. Suppose I wanted to make a change of banks?—A. Yes.

Q. I would then deposit that legal tender cash with the bank.—A. One bank has lost $100 legal tender cash and the other has gained it.

Q. Yes.—A. There is no change in the total.

Q. I am doing exactly the same thing with a deposit of American cash, if I go through the process which eventually must take place. I would go to the bank and I would say, "Give me Canadian funds for this American money" which, under to-day's circumstances, I would get. I would then go and make a deposit of that legal tender cash which I would secure from the bank, with a bank and create a deposit in that way.—A. Yes; but you would have reduced some other bank's deposits by the same amount. The sum total of deposits or of legal tender cash would not have changed by one dollar.

By Mr. Taylor:

Q. Excuse me, but is foreign exchange not a bank's function?—A. Yes.

Q. Is it not part of the bank's business?—A. Yes.

Q. Was it not really the earliest form of banking?—A. Yes. The banks in that case act as the go-between between those with foreign exchange to sell and those who want to buy it.

By Mr. McGeer:

Q. All right. Take another form of deposit. I dig out of the ground a certain amount of gold.—A. That is new production.

Q. That is a new production. I mean, you are distinguishing between the increment of money from abroad as not a new production of money in Canada and the production of gold from the Canadian ground which in turn is sold abroad. Now, all those ways of making deposits—that is, the digging of gold out of the ground, the accumulation of foreign exchange— —A. That does not increase Canadian deposits.

Q. That is, the digging of gold out of the ground— —A. If you dig gold out of the ground and sell it to a chartered bank—let us assume we are on a gold standard and it was possible for the chartered banks to buy it—yes, that could. If it added to its assets by buying and holding the gold, that would increase its deposits; but any accumulation of foreign exchange will not increase Canadian bank Canadian dollar deposits.

Q. We will say that Canada is in her international trade balance— —A. Yes.

Q.—securing a favourable balance of trade.—A. Yes; make it $100,000,000.

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Q. All right, make it $100,000,000.—A. Yes.

Q. At the end of your year's business, she has sold abroad and purchased abroad, but she has an increase in her total wealth of $100,000,000 of a favourable balance of trade.—A. Yes.

Q. Do you say that Canada's wealth in money would not be improved by $100,000,000 dollars?—A. I say her wealth would be improved; but she would not have a larger volume of deposits in the bank. She would either have that $100,000,000 in the form of accounts with foreign banks in favour of Canadian citizens—perhaps going through the intermediary of Canadian banks, but nevertheless accounts in foreign currencies—or Canadian citizens would have brought home from foreign countries $100,000,000 of debt which was previously held abroad. But the operation of that favourable balance will not increase by one dollar the deposits in the Canadian banks—the Canadian dollar deposits in the Canadian banks.

Q. All right. We have got down to this proposition of your theory, that a favourable balance of trade in international trade does not in reality increase the money wealth of the Dominion in the Dominion?—A. By no means. It does not increase Canadian deposits. But Canadian citizens have $100,000,000 more in assets than they had before. They either have them in the form of balances in foreign banks or they have them in the form of securities which were previously held abroad or something of that form.

Q. Yes?—A. They have got the additional wealth, but it is not in the form of deposits in Canadian banks.

Q. All right. Suppose I had, as the result of international trading, a claim on London?—A. Yes?

Q. For funds payable in Canada.—A. For sterling?

Q. Well, for funds payable in Canada; we will say that I have shipped out lumber.—A. Oh, yes; they have got to pay 10,000 Canadian dollars, shall we say?

Q. Yes. When they come to pay me 10,000 Canadian dollars, they have got to go and get 10,000 Canadian dollars.—A. Yes, that is right. They will get that from some other depositor and pass it on to you; but the total deposits will not change.

Q. When we make this transaction on the bill market of London, they do either one thing or the other; they settle in gold or they settle with a purchase of legal tender Canadian cash?—A. Yes; in practice they would have settled through the purchase of legal tender Canadian cash.

Q. Yes?—A. Which they would get from some depositor in that bank.

Q. But they would give to the Bank of Canada their British currency which you will accept in exchange for Canadian currency?—A. Oh, no.

Q. You will not buy?—A. They would not do it in that form. Let us assume that we are not doing an exchange transaction, although it makes no difference. Suppose Tom Smith in London had to make payment of 10,000 Canadian dollars to you. Tom Smith goes down to his bank and says, "I want to buy 10,000 Canadian dollars." They buy that through the intermediary of the Canadian bank from someone in Canada who has $10,000 on deposit with the bank, and who happens to want sterling. He gives up his 10,000 Canadian dollar deposit which is paid to you. The sum total of deposits has not increased. It is a transfer from one Canadian to another.

Q. In any event, in international exchange transactions there is always sufficient to make an exchange of deposits?—A. There has to be.

Q. There has to be?—A. By definition; unless people will leave money accumulating in foreign banks—unless people do leave money accumulating in foreign banks—as, for instance, if in that case you had left the $10,000 on deposit in London in the Midland Bank, shall we say, to the tune of £2,000.

Q. Yes?—A. Then you would have an increased deposit, but in London.

Q. Do you mean to tell me if I have a bank deposit in London I cannot transfer that bank deposit to Canada?—A. Yes, you can; but in so doing you will not increase the sum total of Canadian deposits.

Q. All right. Suppose that that deposit comes from London?—A. Yes.

Q. It is the deposit of sterling money.—A. Where, in Canada.

Q. It is a deposit of sterling money in England.—A. In England, yes.

Mr. TAYLOR: Suppose you were the heir to an estate, for instance.

Mr. McGEER: Yes.

By Mr. McGeer:

Q. I am afraid we are not working together, because I cannot see how, if I am living in London—A. Yes.

Q. —and I wish to come to this country—A. Yes.

Q.—and to bring to this country my money wealth in an English bank. —A. Yes.

Q. I do not sell anything to Canada; I do not do anything at all but go to my bank in London and say, "I want the £5,000 which I have got on deposit here."—A. Yes.

Q. I say, "I want that transferred from London to Montreal."—A. Yes.

Q. I come in with $5,000 of new money. Now I cannot see how the money wealth of Canada is not increased by £5,000.—A. Of course it is, but that is the point I made before. The money wealth of Canada is increased but the bank deposits in Canada are not increased.

Q. All right. I have not spent anything. I have transferred the bank deposit of £5,000 from a bank in London to a bank in Montreal.—A. But you have transferred it in Canadian dollars, I take it?

Q. No, I have given the cash.—A. I do not quite understand. What do you want in Canada? Do you want an account with the bank for £5,000 or for $25,000?

Q. I want a Canadian bank deposit— —A. In Canadian dollars?

Q. Of whatever it is.—A. Yes. You will find then that the £5,000 has been sold to some other Canadian who wanted the £5,000. Some other Canadian has got the £5,000.

Q. And he has got a liability in London of £5,000?—A. He has got an asset.

Q. Which he liquidates or takes a deposit of over there?—A. Yes. He wants £5,000 to pay a liability in London.

Q. Now I see what you are doing. Suppose the rates of exchange—not the rate of exchange but the exchange facility is not such that it is possible to liquidate that liability of the British bank to me as a depositor which I want to transfer to Canada?—A. Yes.

Q. Then that bank which is given the right to transfer my deposit to Canada must find some way of securing that Canadian bank deposit of £5,000, which can be done by shipping £5,000 worth of gold to Canada?—A. Yes, that can be done. It can be done theoretically, not just at the moment.

Q. Well, as a matter of fact, unless international transactions balance out, and there is a withdrawal of £5,000 from Canada to London at the same time that there is a presentation or transfer of £5,000 from London to Canada, then the new deposit would be in the form of a gold settlement?—A. Under certain circumstances. That could not be done in Canada at the present time because we do not take any gold.

Q. You are not receiving any gold now? Then, what would you settle any favourable balance of trade with that you happened to have if you did not accept gold and there is no other transfer available?—A. You would find in that case that the rate of exchange would alter and that with the altered rate of exchange demand and supply would balance, by definition.

[Mr. Graham Ford Towers.]

Q. In time?—A. Right away. In other words, it would alter sufficiently to achieve that balance, whatever amount was necessary.

Q. It would be a strange thing in my conception of international trade if, as the result of our buying more from abroad than we have in the way of sales abroad—than we are doing in the way of purchases abroad—if we did not increase our accumulation of money wealth?—A. I must keep on saying, it is not money wealth, it is other assets.

Q. Well then, our money wealth in Canada is in bank deposits, because none of us has any money wealth in Canada that is not in the form of deposits? —A. That is why I say it is not money wealth; it would be in securities or in other forms of assets.

Q. I am talking of money wealth, I mean, it is all— —A. I do not know how I can make it plainer.

Q. I think maybe we had better let the matter drop.—A. The wealth arising from our favourable balance of payments you will find takes a visible form in securities, bonds, preferred stocks, common stocks; things we have been bringing back from abroad in that form and which have real value; and that is the form it takes.

Q. I see. I think where our difficulty arises is that I am dealing with specific monetary deposits and you are dealing with actual results, balancing international payments by selling one obligation against the other or by holding securities against liabilities abroad?—A. Well, I do not quite follow the holding of securities against liabilities abroad. It is really converting your favourable balances into securities previously held by the foreigner, and bringing them home.

Mr. Landeryou: It is simply putting the other country in debt to you.

Mr. Towers: That is really the case, and the other country discharges its debt by selling back to you securities which they have previously bought.

By Mr. Tucker:

Q. There is something I would like to ask there. Your bank set-up would have something to do with the exchange as between Canadian and foreign currencies?—A. The exchange, that part appears, so to speak, in only one place in the Act and that is in the preamble.

Q. Yes?—A. And it is true that monetary policy will, over a long run, undoubtedly influence the exchange rate. On the other hand, there has never been anything in the form of legislation which said the exchange value of the Canadian dollar versus other currency shall be so-and-so. There is nothing on that point.

Q. Yes, but there was an exchange equalization fund set up in order to deal with the situation in that regard and it seems to me, and I wish that to be dealt with, the tendency for the flight of funds from Europe to Canada and the United States is continually offering to appreciate our money as compared to sterling, and that is hurting our primary producers and if our Bank of Canada is not consciously dealing with that problem then it seems to me that we should know about it and take it up with the government to actually set up an agency to deal with it.—A. The exchange fund, as you recall, is completely under the control of the Minister of Finance.

Q. I take it then that you play no part at all in the working of that fund? —A. Please don't say it is no interest to us, because Heaven knows it is a matter of interest to us sixteen hours a day.

Q. I mean from the standpoint of doing anything about it?—A. I wonder how far I would be justified in speaking about it. I do not know just how far I could go certainly, if it was to be done by the exchange fund not even the Sergeant-at-Arms himself could make me say anything about it, by provisions of our own parliament.

By Mr. Landeryou:

Q. Why not put it this way: the government or yourselves are taking no practical action to avoid it, but other factors are entering into it that you have not counteracted?—A. I think that I must rest by saying that there has been and is no legislative direction so far as I am aware that the value of Canadian currency should be thus and so. There is no direction to the Bank of Canada that we must do what we can to have our currency at par with the others, or at a premium of 20 per cent, or at a discount of 20 per cent.

By Mr. Tucker:

Q. We arrived at the situation in 1932, as I understand it, at which time wheat was forced to the lowest level it ever reached, and the depreciation of sterling as compared to our dollar helped to bring that situation about. As I understand it there are powers at present at work, there is the tendency for that movement to start again, through our money depreciating compared to sterling, which affects the prices of all operating farms. And I understood from you—and if it is not right I hope you will correct me—you are not taking any direct action in regard to our money appreciating as compared to sterling. If you are taking action that you do not want to tell us about that is all right too. I am pleased to hear it. My information was that you people had taken no action whatever to correct that situation, one which is becoming very grave and serious.—A. If we have taken any action it cannot be concealed action. It would show in our balance sheet.

Q. Then you are not taking action?—A. If you read our balance sheet of two years back—I need not go back that far, say from February, 1937, to March or April, 1939, you will see right there any action we have taken. But in order to save you the trouble of looking this up, you will see that our holdings of gold and foreign exchange have probably increased fifty million to sixty million dollars during that time.

Q. It is not, then, nearly enough to counteract governmental action in permitting our gold to be sold abroad which up to that time had always been regarded as being used to settle international balances? We have turned the gold that was not needed for settling international balances to a use that has appreciated our money compared to other money.—A. Of course, the government would have to answer that, as I said before. And, incidentally, I should not say that the action that I have mentioned was specifically action intended to change the value of the Canadian dollar. I think there are other circumstances which might be observed which served to increase our reserve. There is the circumstance of the general international outlook, and the movements of capital which were taking place; but there is no question that we removed fifty odd million of foreign exchange from the Canadian market. Now, I think that is absolutely as far as I can go. A recommendation in regard to bringing our dollar down to a certain level in relation to sterling must necessarily be one for parliament and for the government.

Q. There is one other question I would like to ask in connection with that? —A. As to the methods of achieving it, there are various ways.

Q. Does the government not give permission by governmental action to export that gold? During the last few years I think you will admit that instead of our money being at a premium as compared with sterling to-day it would probably be at least on a par, and perhaps at a discount? That is correct, isn't it?—A. I should say if we cut out a couple of hundreds of millions of dollars of exports, no matter what they were, that it would certainly be at a discount, if someone inside the country bought these things which would otherwise have been exported. Your idea would be that the gold should be bought by the government?

[Mr. Graham Ford Towers.]

Q. My idea would be that the gold should be bought by the government to the extent that it should not be used as exports to throw out of balance our money so that we as a great exporting nation are at a disadvantage compared to practically every other nation in the world.—A. I really think that it would save time and thought—I am just giving this as a suggestion—if we concentrated on the recommendation that there should be depreciation. The method of trying to achieve that is another story. Your main object would be depreciation.

Q. What we are doing is that we are using our gold twice, and greatly appreciating our money?—A. I cannot agree with that.

Q. Well, when we ship our gold to the United States—A. When we ship any production.

Q. I am talking about gold, gold has after all monetary value?—A. Excuse me, I absolutely differ. So far as Canada is concerned gold is no different from anything else.

Q. So far as the nations of the world are concerned gold is one commodity used to settle international exchange, international balances, and to prevent currencies from being thrown out of line by virtue of not being able to settle international balances, and it is the only product used for the purpose?—A. For that purpose gold is a commodity.

Q. Now then, to the extent, however, that we use it as a commodity beyond the necessity of settling our international balances, to the extent that I suggested to you, and build up a favourable balance of trade, it means that our money is being appreciated in terms of foreign money, and that we are using our gold supplies to actually appreciate our money rather than to leave it where it otherwise would be?—A. Another way of doing it would be to forbid mines to produce any gold.

Q. No, what I suggest to you is this, that to the extent that you are using your gold supplies— —A. But if it is not needed at home why not forbid the mines to produce it and get the result that way?

Q. I suggest to you, Mr. Towers, that under the present state of affairs, we are permitting the mines to sell gold that is worth originally $20 an ounce for $35 an ounce, and then permitting on top of that an appreciation of our dollar, so that the unfortunate farmer who is selling his bacon and his butter and his cheese and his wheat gets less for it on his main market; and somebody should be doing something about it, because you are actually giving every possible benefit to your mining industry at the expense of all your other primary producers.

Mr. McGeer: I do not know that we should badger Mr. Towers as to what is really a matter of high policy for the Minister of Finance and for the government itself. I think that if we have any information from him that information should be along the line of what facilities are available to Canada to bring about a depreciation of our currency, and that is, I think, as far as he should go. I think he said there were at least a dozen ways by which Canadian currency could be depreciated in the form of international value if the government of the day would declare for a policy of reducing the Canadian dollar to a depreciated level. Isn't that correct?

Mr. Towers: That is correct. A dozen may be a broad statement, but you know what I mean.

By Mr. McGeer:

Q. Would there be any objection, Mr. Towers, to your making a statement enumerating those ways? I do not think it is a thing that we should ask you to answer offhand.—A. I would say that I can enumerate the main

ways right now. One is by excessive issues of credit and currency which would in due course cause inflation here. That will produce depreciation.

Q. Have you any idea of how much we would have to issue to get that result?—A. No; one could not say that; it would depend partly on the amount of the issues and partly on the psychology of the Canadian people. If they got really scared, depreciation would come more quickly.

Q. That is, you would have a flight from the Canadian dollar?—A. Yes. The only other way—and when I said a dozen I should have limited myself really to two although the second method could be produced in various ways which one might call subsidiaries to No. 2—is to create a demand for foreign currency in Canada. Now, that demand might have to be supplied by an exchange fund. You would have to keep on buying and buying, as, when you buy in sufficient quantity, presumably you put the price up.

Q. When you speak of the exchange fund in Canada you mean the stabilization fund of $250,000,000 that was voted for that purpose?—A. No. The exchange fund was created from the revaluation of gold in July, 1935.

Q. Was that used under what we call our stabilization of exchange Act?—A. It is the Exchange Fund Act which created it.

Q. Have we not got a stabilization fund Act as well?—A. No, the Exchange Fund Act is the only one.

Q. When was that put into operation?—A. It was passed in July, 1935, but the sections which permit the Minister of Finance to buy and sell gold and foreign exchange will only come into effect when an order in council is passed.

Q. Has that order in council been passed?—A. No, it has not.

Q. So that our exchange fund is not in operation?—A. That is right, from that point of view.

Q. Before we could get any action on that the Governor in Council would have to act?—A. Right, or you could do other things. If you want to force depreciation on the exchange you could call obligations payable abroad.

Q. Yes, but if you started using your stabilization fund and the secretary of the finance department of the American government, Mr. Morganthau, started using his, he would rather outbid you, would he not?—A. If he were willing to accumulate balances in Canadian dollars. That is all there is to it.

Q. In the face of the stabilization fund of the American government you could not compete with that power to fix the rate of the Canadian dollar?—A. Not if they chose to fight that action, that is right.

By Mr. Ross (St. Paul's):

Q. Is that not what they are doing now, keeping their dollar on a parity?—A. No, they are not taking any action.

Q. Why is our dollar on a parity?

Mr. McGeer: Because of our trade situation.

By Mr. Ross:

Q. I understand that all right, but we are depreciated as far as the pound is concerned. We are at a parity as far as the United States is concerned. Why should we not be below the American dollar and appreciated as far as the pound is concerned? In other words, why should we be half way between?—A. The pound has fallen in New York because of the great forces which, as we all know, have put pressure on sterling. It is depreciated in New York almost exactly to the same amount as it is depreciated here.

Mr. McGeer: Our dollar is not depreciated below the pound sterling.

Mr. Towers: Appreciated above.

Mr. McGeer: Our dollar is at a premium.

The Chairman: Gentlemen, it is 6 o'clock.

Mr. McGeer: I understood you to say our dollar was at a discount with sterling.

Mr. Ross: No, it is appreciated.

The Chairman: Gentlemen, we have lost our quorum. What is your pleasure about to-morrow? Shall we meet in the morning?

Mr. Tucker: To-morrow morning.

(At 6.05 p.m. the committee adjourned to meet again at 11 a.m., Thursday, May 4, 1939.)

APPENDIX

BANK OF CANADA ACT

24-25 George V, Chapter 43 (1934)

As Amended by—

1 Edward VIII, Chapter 22 (1936)

2 George VI, Chapter 42 (1938)

24-25 GEORGE V.

CHAP. 43

An Act to incorporate the Bank of Canada

[*Assented to 3rd July, 1934.*]

WHEREAS it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:— Preamble.

SHORT TITLE

1. This Act may be cited as the *Bank of Canada Act*. Short title.

INTERPRETATION

2. In this Act unless the context otherwise requires:— Definitions.

(*a*) "Board of Directors" or "Board" means the Board of Directors of the Bank of Canada; "Board of Directors."

(*b*) "chartered bank" means a bank to which the Bank Act applies; "Chartered Bank."

(*c*) "Director" means a member of the Board of Directors other than the Governor or the Deputy Governor or the member acting in virtue of the authority conferred by subsection two of section five of this Act; 1936, c. 22, s. 2. "Director."

(*d*) "Dominion notes" means notes payable to bearer on demand, issued and outstanding, which immediately prior to the day on which the Bank of Canada was authorized to commence business constituted a direct liability of the Dominion of Canada; 1936, c. 22, s. 2. "Dominion notes."

(*e*) "Governor" means the Governor of the Bank of Canada or the person acting for him pursuant to the provisions of this Act; 1936, c. 22, s. 2. "Governor."

(*f*) "Minister" means the Minister of Finance; "Minister."

(*g*) "notes" means notes of the Bank of Canada payable to bearer on demand and intended for circulation; "Notes."

(*h*) "Receiver General" means the Receiver General of Canada; "Receiver General."

(*i*) "the Bank" means the Bank of Canada; "The Bank."

(*j*) "Treasury Board" means the Treasury Board as constituted by the Department of Finance and Treasury Board Act. "Treasury Board."

CONSTITUTION OF THE BANK

The Bank constituted. **3.** (1) There shall be established a bank to be called the Bank of Canada.

Body politic and corporate. (2) The Bank is and shall continue to be a body politic and corporate. **1936, c. 22, s. 3.**

Head Office. **4.** (1) The head office of the Bank shall be in the city of Ottawa.

Branches and agencies. (2) The Bank may establish branches and agencies and appoint agents in Canada and may also, with the approval of the Governor in Council, establish branches and appoint agents elsewhere than in Canada.

Board of directors. **5.** (1) The Bank shall be under the management of a Board of Directors composed of a Governor, a Deputy Governor and eleven directors appointed in accordance with the provisions of this Act. There may also be an Assistant Deputy Governor who shall not as such be a member of the Board. **1938, c. 42, s. 3.**

Deputy Minister to be member of Board. (2) In addition to the Members of the Board as constituted by subsection one of this section, the Deputy Minister of Finance or, in case of his absence or incapacity at any time, such other officer of the Department of Finance as the Minister may nominate for the time being, shall be, by virtue of his office or of such nomination, as the case may be, a member of the Board, but shall not have the right to vote.

Governor and Deputy Governor. **6.** (1) The Governor and Deputy Governor shall be men of proven financial experience and each shall devote the whole of his time to the duties of his office.

Persons disqualified for appointments. (2) No person shall hold office as Governor or Deputy Governor or Assistant Deputy Governor, who,—

(*a*) is not a British subject; or

(*b*) is a member of either House of Parliament or of a Provincial Legislature; or

(*c*) is employed in any capacity in the public service of Canada or of any province of Canada or holds any office or position for which any salary or other remuneration is payable out of public moneys; or

(*d*) is a director, officer or employee of any other bank or financial institution or has an interest as a shareholder in any other bank or financial institution; or (1936, c. 22, s. 5.)

(*e*) has reached the age of seventy-five years.

MANAGEMENT

Powers of Governor. **7.** (1) The Governor of the Bank shall be the chief executive officer and shall on behalf of the Board have the direction and control of the business of the Bank, with authority to act in connection with the conduct of the business of the Bank in all matters which are not by this Act or by the by-laws of the Bank specifically reserved to be done by the Board or by the Executive Committee. **1938, c. 42, s. 4.**

Duties of Deputy Governors. (2) The Deputy Governor and the Assistant Deputy Governor shall perform such duties as are assigned by the Board.

(3) In the event of absence or incapacity of the Governor from whatever cause arising, the Deputy Governor shall have and may exercise all the powers and functions of the Governor. Absence or incapacity of Governor.

(4) In the event of absence or incapacity of both the Governor and the Deputy Governor, the Board of Directors shall authorize the Assistant Deputy Governor or one of the members of the Board to act as the Governor for the time being, but no such person shall have authority to act as Governor for a period exceeding one month without the approval of the Governor in Council. Absence or incapacity of Governor and Deputy Governor.

8. (1) The Governor, Deputy Governor and Assistant Deputy Governor shall each be appointed as hereinafter provided for a term of seven years or, in the case of the first Governor, Deputy Governor and Assistant Deputy Governor, for such shorter period as the Governor in Council may determine. Tenure of office.

(2) The first Governor, Deputy Governor and Assistant Deputy Governor shall be appointed and their salaries shall be fixed by the Governor in Council and thereafter appointments shall be made by the directors with the approval of the Governor in Council. Appointment of first Governor, Deputy and Assistant.

(3) Except as provided in the next preceding subsection the Governor, Deputy Governor and Assistant Deputy Governor shall, subject to the approval of the Governor in Council, receive such salaries as the directors from time to time determine, but no such remuneration shall be in the form of a commission or be computed by reference to the income or profits of the Bank. Salaries.

(4) The Governor, the Deputy Governor and the Assistant Deputy Governor shall on the expiry of their terms of office be eligible for re-appointment. Re-appointment.

(5) The Governor, Deputy Governor and Assistant Deputy Governor shall each hold office for the aforesaid term during good behaviour. Condition of tenure.

DIRECTORS

9. (1) The Minister with the approval of the Governor in Council shall as of the first day of March in each year appoint for terms of three years each a sufficient number of directors to provide that there shall be eleven directors: Provided, however, that every director holding office at the date of the coming into force of this subsection shall continue as a director up to and including the last day of February in the year of the expiration of the term of office for which he was elected or appointed. **1938, c. 42, s. 5.** Directors.

(2) In the event of a vacancy amongst the directors the Minister shall, with the approval of the Governor in Council, appoint a qualified person to hold office for the remainder of the term. **1938, c. 42, s. 5.** Vacancy.

(3) In the transaction of the business of the Bank each director shall have one vote. **1938, c. 42, s. 5.** Votes.

(4) The directors shall on the expiration of their terms of office be eligible for re-appointment. **1938, c. 42, s. 5.** May be re-appointed.

10. (1) The directors shall be selected from diversified occupations; but no person shall be eligible for appointment who is a director, officer or employee of a chartered bank, and any person appointed as a director who is a shareholder of a chartered bank shall divest Selection of directors.

himself of ownership of his shares within three months of the date of his appointment and shall not thereafter during the term of his office have an interest, either directly or indirectly, as a shareholder in a chartered bank. 1938, c. 42, s. 6.

Disqualifications.

(2) No person shall be appointed, or shall continue to hold office as a director who:—

(*a*) is not a British subject ordinarily resident in Canada; or
(*b*) is employed in any capacity in the public service of Canada or of any province of Canada, or holds any office or position for which any salary or other remuneration is payable out of public moneys; provided, however, that a director may perform temporary services for the Government of Canada or any province for which he may be reimbursed actual living and travelling expenses; or
(*c*) has reached the age of seventy-five years. 1938, c. 42, s. 6.

Removal if permanently incapacitated

(3) If any director, in the opinion of the Board, becomes permanently incapacitated, he may be removed from office by resolution of the Board approved by the Governor in Council. 1938, c. 42, s. 6.

Directors' fees.

11. The directors shall be entitled to receive for attendance at directors' meetings and executive committee meetings, such fees as may be fixed by the by-laws of the Bank, but the aggregate amount of the fees paid to all directors, exclusive of expenses, shall not exceed twenty thousand dollars in any year. 1938, c. 42, s. 7.

Chairman.

12. The Governor shall be Chairman of the Board of Directors. 1936, c. 22, s. 8.

EXECUTIVE COMMITTEE

Constitution of Executive Committee.

13. (1) There shall be an Executive Committee of the Board, consisting of the Governor, the Deputy Governor and one director selected by the Board.

Deputy Minister to be member of executive committee.

(2) In addition to the Members of the Executive Committee as constituted by subsection one of this section, the Deputy Minister of Finance or, in case of his absence or incapacity at any time, such other officer of the Department of Finance as the Minister may nominate for the time being shall be by virtue of his office or of such nomination, as the case may be, a member of the Executive Committee, but shall not have the right to vote.

Powers.

(3) The Executive Committee shall be competent to deal with any matter within the competence of the Board but every decision of the committee shall be submitted to the Board at its next meeting.

Rate of discount and rediscount.

(4) Except when the Board is in session the Executive Committee shall determine the minimum rates at which the Bank is prepared to discount or rediscount bills or to make advances and the Bank shall at all times make public the rates at which it is prepared to discount or rediscount bills or to make advances.

Minutes.

(5) The Executive Committee shall keep full minutes of its proceedings, which shall be submitted to the Board at its next meeting.

Governor's veto.

14. (1) The Governor, or in the event of his absence or incapacity the Deputy Governor only, shall have power to veto any action or decision of the Board of Directors or of the Executive Committee,

and if this veto power be exercised, the Governor or Deputy Governor, as the case may be, shall within seven days inform the Minister in writing of the circumstances and the Minister shall submit the veto to the Governor in Council who may confirm or disallow the veto. 1936, c. 22, s. 9. To be submitted to Governor in Council.

(2) Any director or member of the Executive Committee may inform the Minister in writing of his view of the action or decision in question, which view shall also be transmitted to the Governor in Council. 1936, c. 22, s. 9. View of director or member of the Executive.

BANK STAFF

15. (1) Such other officers, clerks and employees may be employed as in the opinion of the Executive Committee may be necessary. Officers and employees.

(2) In the case of officers, clerks and employees of the Bank who at the date of appointment were officers, clerks or employees of the Civil Service of Canada, the salaries to be paid by the Bank shall be at rates not less than the rates which such persons were receiving in the Civil Service. Salaries.

(3) Any officer, clerk or employee mentioned in subsection two of this section who was a contributor under the provisions of the *Civil Service Superannuation Act*, chapter twenty-four of the Revised Statutes of Canada, 1927, may continue as a contributor under the provisions of the said Superannuation Act for a period not exceeding one year after the date of his appointment by the Bank, and shall during such period continue his contributions to the Civil Service Superannuation Fund and the Bank shall during the said period contribute to the said Fund a like amount. Subject to the provisions of subsection four of this section, at the expiration of one year after the date of the appointment by the Bank of any such officer, clerk or employee his benefits under the provisions of the said Superannuation Act shall be calculated and determined as of the date of the expiration of the said year as if he had at that time retired from the Civil Service by reason of abolition of his office, in which case the enjoyment of the said benefits shall be deferred until such time as he leaves the service of the Bank. Contributor under Superannuation Act may continue payments for one year. Bank to contribute like amount. Adjustment at end of year, subject to right of election.

(4) Upon the said officer, clerk or employee becoming a contributor to or participant in any pension scheme which the Bank may establish he may elect either— Right of election when he becomes contributor to Bank pension fund.

(i) to have his benefits under the provisions of the said Superannuation Act calculated and determined as at the date of his becoming a contributor to or participant in any pension scheme which the Bank may establish or at the expiration of one year from the date of his appointment as aforesaid, whichever shall first occur, in which case the enjoyment of the said benefits shall be deferred until such time as he leaves the service of the Bank; or Benefits calculated at date of becoming contributor to Bank pension fund.

(ii) to waive his right to any payment or benefit under the said Superannuation Act and in that case his period of service in the Civil Service shall be counted as service with the Bank for the purposes of the Bank's pension scheme to the extent that such service would have counted under the said Superannuation Act. The Governor in Council and the Bank may enter into an Waiver of rights under Superannuation Act. Period in Civil Service to be counted.

Agreement as to amount to be paid to Bank on assumption of liability. agreement as to the amount to be paid to the Bank with reference to the assumption by the Bank of liability under its pension scheme with respect to the said period of service in the Civil Service. Payment. The Minister may pay the amount agreed upon out of any unappropriated moneys in the Consolidated Revenue Fund which shall be recorded as a payment from the said Superannuation Fund, and the Bank shall pay the said amount into its Pension Fund.

Regulations. (5) The Governor in Council may make such regulations as may be deemed necessary to give effect to the provisions of subsections three and four of this section.

Pension fund. (6) The Board may by by-law establish a pension fund for the officers, clerks and employees of the Bank and their dependents and may contribute to it out of the funds of the Bank, and such pension fund shall be invested in securities in which a trust company may invest under the Trust Companies Act.

Oath of directors and staff. **16.** Every director, officer, clerk and employee of the Bank shall before entering upon his duties take before a Justice of the Peace or a Commissioner for taking affidavits, an oath of fidelity and secrecy in the form prescribed in Schedule A to this Act.

CAPITAL AND SHARES

Capital. **17.** (1) The capital of the Bank shall be five million dollars but may be increased from time to time pursuant to a resolution passed by the Board of Directors and approved by the Governor in Council and by the Parliament of Canada. **1938, c. 42, s. 8.**

Shares. (2) The capital shall be divided into one hundred thousand shares of the par value of fifty dollars each, which shall be issued to the Minister to be held by him on behalf of the Dominion of Canada. **1938, c. 42, s. 8.**

Registered in Minister's name. (3) The shares issued to the Minister shall be registered by the Bank in his name in the books of the Bank at Ottawa. **1938, c. 42, s. 8.**

Exchange of shares. **17A. (1)** The Minister shall, as of the date of the coming into force of this subsection, exchange one hundred thousand Class "B" shares of the Bank out of the one hundred and two thousand Class "B" shares of the Bank then held by him for one hundred thousand shares of the capital of the Bank authorized to be issued by section seventeen of this Act and the said one hundred thousand Class "B" shares of the Bank so exchanged shall forthwith be cancelled. **1938, c. 42, s. 9.**

Price to be paid for Class "A" shares. (2) The Bank shall on the date of the coming into force of this subsection pay to each holder of Class "A" shares of the Bank the sum of fifty-nine dollars and twenty cents for each Class "A" share registered in his name at the close of business on the fifteenth day of July, 1938, together with the amount of dividends accrued to the date of the coming into force of this subsection and all Class "A" shares of the Bank shall be deemed to be cancelled as of the date of the coming into force of this subsection. **1938, c. 42, s. 9.**

Minister to reimburse the Bank. (3) The Minister shall as of the date of the coming into force of this subsection reimburse the Bank the amount by which payments made by the Bank to the holders of Class "A" shares, excluding any amount paid by way of dividend, exceed the par value of such shares and such reimbursement shall be effected by surrendering to the Bank

for cancellation two thousand of the Class "B" shares held by the Minister having the aggregate par value of one hundred thousand dollars and by paying to the Bank out of any unappropriated moneys in the Consolidated Revenue Fund the sum of eight hundred and twenty thousand dollars. **1938, c. 42, s. 9.**

(4) The Bank shall, on the date of the coming into force of this subsection, pay to the Minister on behalf of the Dominion of Canada, the amount of dividends accrued up to the said date upon the one hundred and two thousand Class "B" shares of the Bank held by the Minister as of the said date. **1938, c. 42, s. 9.** Bank to pay accrued dividends upon Class "B" shares.

18. Repealed. **1938, c. 42, s. 10.**

19. Repealed. **1938, c. 42, s. 11.**

20. Repealed. **1936, c. 22, s. 12.**

BUSINESS AND POWERS OF THE BANK

21. (1) The Bank may

(*a*) buy and sell gold, silver, nickel and bronze coin and gold and silver bullion; Coin and bullion.

(*b*) effect transfers of funds by telegram, letter or other method of communication, and buy and sell transfers effected by such means, trade acceptances, bankers' acceptances, bankers' drafts and bills of exchange drawn in or on places outside of Canada and having a maturity not exceeding ninety days, excluding days of grace, from the date of acquisition by the Bank; **1936, c. 22, s. 13.** Exchange.

(*c*) buy and sell or rediscount short term securities issued or guaranteed by the Dominion of Canada or any province, having a maturity not exceeding two years from the date of acquisition by the Bank; Investments.

(*d*) buy and sell securities issued or guaranteed by the Dominion of Canada or any province, having a maturity exceeding two years from the date of acquisition by the Bank, but the Bank shall at no time hold securities not maturing within two years having a par value in excess of fifty per cent of its outstanding note issue and deposit liabilities, nor shall the Bank at any time hold securities not maturing within ten years of a par value in excess of five times the amount of the paid-up capital and rest fund of the Bank; **1938, c. 42, s. 12.** Bank may buy and sell Dominion or provincial securities.

(*e*) buy and sell short term securities issued by the United Kingdom, any British Dominion, the United States of America, or France, having a maturity not exceeding six months from the date of acquisition by the Bank;

(*f*) buy and sell securities issued by the United Kingdom or the United States of America having a maturity exceeding six months from the date of acquisition by the Bank, but the Bank shall at no time hold such securities of a par value in excess of one-half of the amount of the paid-up capital of the Bank; **1938, c. 42, s. 12.** Securities of the U.K. or U.S.

(*g*) buy and sell or rediscount bills of exchange and promissory notes endorsed by a chartered bank drawn or issued in connection with the production or marketing of goods, wares Discounts.

1934, c. 24. and merchandise as defined in *The Bank Act*, excepting those mentioned in paragraph (*h*) of this subsection, and having a maturity not exceeding ninety days, excluding days of grace, from the date of acquisition by the Bank; 1936, c. 22, s. 13.

(*h*) buy and sell or rediscount bills of exchange and promissory notes endorsed by a chartered bank, drawn or issued in connection with the production or marketing of products of agriculture, the forest, the quarry and mine, or the sea, lakes and rivers, as defined in *The Bank Act*, and having a maturity not exceeding one hundred and eighty days excluding days of grace from the date of acquisition by the Bank: Provided that the Bank may by regulation limit to a percentage of its total assets the amount of such paper having a maturity in excess of ninety days excluding days of grace but not exceeding one hundred and eighty days excluding days of grace, from the date of acquisition by the Bank;

Loans and advances. (*i*) make loans or advances for periods not exceeding six months to chartered banks or to banks incorporated under the *Quebec Savings Banks Act* on the pledge or hypothecation of the foregoing classes of securities, bills of exchange or promissory notes, or of Canadian municipal securities, or of securities issued by a school corporation or parish trustees, or of securities issued pursuant to the statutes of a province making provision for the payment thereof and the interest thereon by the province, or of gold or silver coin or bullion, or documents of title relating thereto;

(*j*) make loans or advances for periods not exceeding six months to the Dominion Government or the government of any province on the pledge or hypothecation of readily marketable securities issued or guaranteed by the Dominion of Canada or any province;

(*k*) make loans to the Dominion Government or the government of any province, but such loans outstanding at any one time shall not, in the case of the Dominion Government, exceed one-third of the estimated revenue of such government for its fiscal year, and shall not in the case of any provincial government exceed one-fourth of such government's estimated revenue for its fiscal year; and such loans shall be repaid before the end of the first quarter after the end of the fiscal year of such government;

Open market operations. (*l*) for the purpose of its open market operations, buy and sell in the open market from or to any person, either in or outside of Canada, securities, cable transfers, bankers' acceptances, and bills of exchange of the kinds and maturities defined in, and subject to the limitations, if any, contained in, paragraphs (*b*), (*c*), (*d*), (*e*), (*g*) and (*h*) of this subsection with or without the endorsement of a chartered bank;

Deposits. (*m*) accept from the Dominion Government or the government of any province or from any chartered bank or from any bank incorporated under the *Quebec Savings Banks Act* deposits which shall not bear interest;

(*n*) open accounts in a central bank in any other country or in the Bank for International Settlements and act as agent, depository or correspondent of such other central banks or the Bank for International Settlements;

(*o*) acquire by purchase or lease and hold real or immovable property for the actual use and occupation of the Bank in connection with its business and sell and dispose of the same; Real estate.

(*p*) do any other banking business incidental to or consequential upon the provisions of this Act and not prohibited by this Act. **1936, c. 22, s. 13.** Incidental powers.

(2) The Bank may acquire from any chartered bank and hold any warehouse receipt, bill of lading and other security held by such chartered bank pursuant to the provisions of *The Bank Act*, as collateral security for the repayment of any bill of exchange or promissory note acquired by the Bank under the provisions of the next preceding subsection; and the Bank may exercise every right and remedy in respect of such collateral security as could have been exercised by the chartered bank aforesaid. Acquisition of collateral securities.

22. The Bank shall not, except as authorized by this Act, Prohibited business.

(*a*) engage or have a direct interest in any trade or business whatsoever;

(*b*) purchase its own stock or the shares of any other bank except the Bank for International Settlements or make loans upon the security thereof;

(*c*) lend or make advances upon the security of any real or immovable property; provided that in the event of any claims of the Bank being in the opinion of the Board endangered, the Bank may secure itself on any real property of the debtor or any other person liable and may acquire such property, which shall, however, be resold as soon as practicable thereafter;

(*d*) make loans or advances without security;

(*e*) accept deposits for a fixed term or pay interest on any moneys deposited with the Bank;

(*f*) allow the renewal of maturing bills of exchange, promissory notes or other similar documents purchased or discounted by or pledged to the Bank; provided that the Board may make regulations authorizing in special circumstances not more than one renewal of any such bill of exchange, promissory note or other document.

23. (1) The Bank shall act as fiscal agent of the Government of Canada without charge and, subject to the provisions of this Act, by agreement, may also act as banker or fiscal agent of the government of any province. Fiscal agent of Dominion Government and of provinces.

(2) The Bank, if and when required by the Minister so to do, shall act as agent for the Government of Canada in the payment of interest and principal and generally in respect of the management of the public debt of Canada. To manage public debt.

(3) The Bank shall not make any charge for cashing or negotiating any cheque drawn on the Receiver General or on his account, or for cashing or negotiating any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or upon any cheque drawn in favour of the Government of Canada or any department thereof and tendered for deposit in the Consolidated Revenue Fund. **1936, c. 22, s. 14.** Dominion Government cheques to be paid or negotiated at par.

NOTE ISSUE

Sole right of note issue.

24. (1) On and after the day on which the Bank is authorized to commence business the Bank shall, except as provided in *The Bank Act*, have the sole right to issue notes payable to bearer on demand and intended for circulation in Canada and may, subject to the provisions of section twenty-six of this Act, issue such notes to any amount. Such notes shall be legal tender, and shall be the first charge upon the assets of the Bank.

Arrangements for issue.

(2) It shall be the duty of the bank to make adequate arrangements for the issue of its notes at its head office and at its branch offices and agencies in Canada, and to supply such notes as required for circulation in Canada.

Denominations.

(3) Notes of the Bank shall be in such denominations and shall be printed and signed or otherwise executed as the Governor in Council shall by regulation determine. **1936, c. 22, s. 15.**

Form and material.

(4) The form and material of the notes shall be subject to approval by the Minister; Provided, however, that each said note shall be printed in both the English and the French languages.* **1936, c. 22, s. 15.**

No torn or defaced notes.

(5) The Bank shall not re-issue notes which are torn, partially defaced or soiled and provision may be made by the Bank for the disinfection and sterilization of notes before re-issue.

REDEMPTION OF NOTES

Payment in gold.

25. (1) The Bank shall sell gold to any person who makes demand therefor at the head office of the Bank and tenders the purchase price in legal tender, but only in the form of bars containing approximately four hundred ounces of fine gold.

Power to suspend.

(2) The Governor in Council, from time to time and for such period as he may deem desirable, may suspend the operation of the next preceding subsection and remove such suspension.

(3) Repealed. **1936, c. 22, s. 16.**

Redemption of outstanding notes.

(4) On and after the day on which the Bank is authorized to commence business the Bank shall be responsible for the redemption of all Dominion notes then issued and outstanding and such notes shall be and continue to be legal tender.

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* Subsection 2 of section 15 of chapter 22 of the statutes of 1936 reads as follows:

(2) As soon as practicable after the coming into force of this Act, each note of the Bank shall be printed in both the English and the French languages; Provided, however, that any such note printed before the coming into force of this Act and issued thereafter and any such note theretofore issued shall nevertheless be a valid and binding obligation of the Bank.

(5) Repealed. 1936, c. 22, s. 16.

(6) Repealed.** 1936, c. 22, s. 16

RESERVES

Reserve.

26. (1) The Bank shall always maintain a reserve, as hereinafter provided, as security against its outstanding notes and deposit liabilities.

"Reserve" defined.

(2) The reserve required by this section to be maintained shall consist of gold coin and bullion in the unrestricted ownership of the Bank equal to an amount not less than twenty-five per centum of the notes and deposit liabilities aforesaid; and may in addition include

(*a*) silver bullion received from the Minister under the next preceding section or purchased under the authority of subsection four hereof, valued at the market price of the fine silver content thereof; and

"Foreign exchange."

(*b*) foreign exchange which shall mean:—

(i) balances in pounds sterling, United States of America dollars and currencies which by law and in fact are convertible on demand at a fixed price into exportable gold, held in the Bank of England, the Federal Reserve Bank of New York, the Bank for International Settlements or a central bank in any country the currency of which is convertible as hereinbefore described;

(ii) treasury bills or other obligations of the United Kingdom or the United States of America having a maturity not exceeding three months from the date of acquisition by the Bank;

(iii) bills of exchange having a maturity not exceeding ninety days, excluding days of grace, from the date of acquisition by the Bank, payable in pounds sterling, United States of America dollars or in a currency which by law and in fact is convertible on demand at a fixed price into exportable gold,

less any liabilities of the Bank payable in the currency of the United Kingdom, the United States of America, or any country whose currency is by law and in fact convertible on demand at a fixed price into exportable gold. 1936, c. 22, s. 17.

** Section sixteen of chapter 22 of the statutes of 1936 which repealed subsections three, five and six of section twenty-five of the principal Act reads as follows:

"**16.** Subsections three, five and six of section twenty-five of the said Act are repealed: Provided, however, that the authority to pay the principal of and interest on securities issued to the Bank under the aforesaid subsections three and six shall continue."

Subsections three and six of section twenty-five of the principal Act repealed as aforesaid read as follows:

(3) On the day on which the Bank is authorized to commence business the Minister shall transfer to the Bank

(*a*) gold held by the Minister for redemption of Dominion notes;

(*b*) silver held by the Minister for redemption of Dominion notes valued at the market price of the fine silver content thereof;

(*c*) securities of the Dominion of Canada bearing interest at three per centum per annum, payable half-yearly and having a maturity not exceeding five years, valued at par;

to the amount of Dominion notes outstanding on that day, except notes issued under the authority of the *Finance Act*.

(6) The Minister, for the purposes of paragraph (*c*) of subsection three of this section, is authorized to issue securities under the provisions of *The Consolidated Revenue and Audit Act, 1931*, and payment of the principal of and interest on such securities shall be made out of the Consolidated Revenue Fund.

Power to suspend gold reserve requirement.

(3) At the request in writing of the Board, the Governor in Council may suspend the operation of this section insofar as it requires the Bank to maintain a reserve of gold equal to an amount not less than twenty-five per centum of its notes and deposit liabilities. Such suspension shall be for such period not exceeding sixty days as may be specified by the Governor in Council, but on the further request in writing of the Board may be extended from time to time for further periods not exceeding sixty days each, provided, however, that no such suspension shall continue for a period longer than one year without the sanction of Parliament.

(4) The Bank shall during the years 1935, 1936 and 1937 purchase and hold newly-mined Canadian silver as and when required so to do by the Minister but the Bank shall never be required to purchase more than 1,671,802 fine ounces in any year.

RESERVE OF CHARTERED BANKS

Reserve to be maintained by chartered banks.

27. (1) Every chartered bank shall maintain a reserve of not less than five per centum of such of its deposit liabilities as are payable in Canadian dollars, and such reserve shall consist of a deposit with the Bank and of notes of the Bank held by such bank. 1938, c. 42, s. 13.

Chartered banks to make returns.

(2) For the purposes of this section, every chartered bank shall make a return to the Bank to be signed by the chief accountant or acting chief accountant and by the general manager or acting general manager of such bank, showing the amount of such of its deposit liabilities as are payable in Canadian dollars and also the amount of its deposit with the Bank and the amount of the notes of the Bank held by such bank, at the end of each juridical day of the month last preceding the date of the return, and showing for the month the daily average amount of such deposit liabilities and of its deposit with the Bank and of the notes of the Bank held by such bank. Such return shall be delivered or transmitted to the Bank at the same time as the return to the Minister, pursuant to section one hundred and twelve of *The Bank Act,* is transmitted or delivered. **1938, c. 42, s. 13.**

1934, c. 24.

Basis of reserve of chartered banks.

(3) The daily average amount of such of its deposit liabilities as are payable in Canadian dollars for each chartered bank shall be the basis of determining the amount of the reserve to be maintained by such bank during the month next following the month in which such return was made. **1938, c. 42, s. 13.**

Penalty.

(4) If any chartered bank knowingly makes default in complying with the requirements of this section, it shall be liable to a penalty at the rate of ten per centum per annum of the amount of deficiency for each day on which there is a deficiency in the amount of the reserve maintained by the chartered bank, and such penalty shall be payable to the Bank and recoverable by it by civil action.

Inspection.

(5) For the purpose of this section the Inspector General of Banks shall annually make such inspection of the books, accounts and documents of every chartered bank as he may deem necessary or expedient for the purpose of satisfying himself that the return required by subsection two of this section is correct, and shall certify to the Bank whether in his opinion the said return is correct, and every chartered bank shall give the Inspector General access to the books, accounts and documents of the bank for such purpose; and if the Inspector General is obstructed or delayed in making the inspection,

the chartered bank shall be guilty of an offence and liable on summary conviction to a fine of one hundred dollars for each and every day during which the obstruction or delay continues. 1936, c. 22, s. 18.

(6) In the event of the property and assets of the Bank being insufficient to pay its debts and liabilities, and if the Bank suspends payment of any of its liabilities, the deposit made hereunder by every chartered bank is hereby guaranteed, and the Governor in Council, on the recommendation of the Minister of Finance, shall authorize payment out of the Consolidated Revenue Fund of such moneys as may be necessary to implement such guarantee. Government guarantee.

(7) Every bank incorporated under the *Quebec Savings Banks Act* shall maintain against its deposit liabilities such reserves in the form of notes of the Bank or deposits with the Bank or a chartered bank as may be deemed to be sufficient by the Bank and shall furnish such information as may be required by the Bank from time to time to satisfy it that such reserves are so maintained. Quebec Savings Banks.

SURRENDER OF GOLD

28. (1) Every chartered bank shall, on the day on which the Bank is authorized to commence business, transfer to the Bank all gold coin or bullion owned and held by it in Canada. Chartered banks to deliver gold held.

(2) The Governor in Council may from time to time thereafter require every chartered bank or every other person to transfer to the Bank any or all gold coin or bullion held in Canada which is owned by such chartered bank or by such other person; and the Governor in Council may authorize all measures deemed necessary or expedient to enforce any such transfer and to impose and recover penalties in respect of any neglect or refusal to make any transfer so required. Power to enforce this requirement.

VALUATION OF GOLD

29. Whenever gold is sold by, transferred to, held as reserve by, or deposited with the Bank pursuant to subsections one or three of section twenty-five, section twenty-six, or section twenty-eight of this Act, the value of the said gold shall be computed on the basis established by the *Currency Act* at the date of the relevant transaction. Valuation of gold.

30. Any profits resulting from the sale by the Bank of gold coin and bullion transferred to the Bank pursuant to subsection three of section twenty-five, or section twenty-eight of this Act, or from an increase in the value of such gold resulting from any change in the monetary standard of Canada shall be paid by the Bank to the Receiver General for the Consolidated Revenue Fund: Provided, however, that the aforesaid provisions of this section shall not apply in the case of gold transferred under subsection one of section twenty-eight, if the Governor in Council is satisfied that the said gold was at the time of the transfer being held by a chartered bank against liabilities elsewhere than in Canada, and in such case the said profit shall belong to the chartered bank. Disposition of profits from sales.

PROFITS OF THE BANK

31. The Bank shall establish a rest fund and after making such provision as the Board thinks proper for bad and doubtful debts, depreciation in assets, pension funds and all such matters as are Rest fund.

properly provided for by banks and after deducting an amount equal to four and one-half per centum of the paid-up capital which may be utilized for the payment of cumulative dividends at a rate of four and one-half per centum per annum, payable half-yearly, the ascertained surplus available from the operations of the Bank during each financial year shall be applied by the Board as follows:

(*a*) If the rest fund of the Bank is less than the paid-up capital, one-third of such surplus shall be allocated to the rest fund and the residue shall be paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund;

(*b*) If the rest fund is not less than the paid-up capital but is less than twice the paid-up capital, one-tenth of such surplus shall be allocated to the rest fund and the residue shall be paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund;

(*c*) If the rest fund is not less than twice the paid-up capital, the whole of such surplus shall be paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund. **1938, c. 42, s. 14.**

AUDIT

Appointment of auditors.

32. (1) For the purpose of auditing the affairs of the Bank, the Governor in Council shall, on the recommendation of the Minister, not later than January thirty-first each year, appoint two auditors, eligible to be appointed as auditors of a chartered bank, but no person shall be eligible for appointment if he or any member of his firm has been auditor for two successive years during the three next preceding years. **1936, c. 22, s. 20.**

Vacancies.

(2) If any vacancy occurs in the office of auditor of the Bank, notice thereof shall forthwith be given by the Bank to the Minister who thereupon shall appoint some other auditor eligible to be appointed as an auditor of a chartered bank to serve until January thirty-first next following. **1936, c. 22, s. 20.**

Persons who may not act.

(3) No director or officer of the Bank and no member of a firm of auditors of which a director is a member shall be eligible for appointment as an auditor. **1936, c. 22, s. 20.**

Reports to Minister.

(4) The Minister may from time to time require the auditors to report to him upon the adequacy of the procedure adopted by the Bank for the protection of its creditors or shareholders and as to the sufficiency of their own procedure in auditing the affairs of the Bank; and the Minister may, at his discretion, enlarge or extend the scope of the audit or direct that any other procedure be established or that any other examination be made by the auditors as the public interest may seem to require. **1936, c. 22, s. 20.**

Copies of reports to be sent to Minister.

(5) A copy of every report made by the auditors to the Bank under this section shall be transmitted to the Minister by the auditors at the same time as such report is transmitted to the Bank. 1936, c. 22, s. 20.

RETURNS

Weekly statement of assets and liabilities.

33. (1) The Bank shall as soon as practicable after the close of business on Wednesday of each week, make up and transmit to the Minister in the form of Schedule C to this Act a statement of its assets and liabilities as at the close of business on that day.

(2) A copy of every such statement shall be published in the next succeeding issue of the *Canada Gazette*. Publication.

(3) The Bank shall also as soon as practicable after the close of business on Wednesday of each week, make up and transmit to the Minister a statement of the amount of its notes in circulation on each business day during the preceding seven day period. Weekly statement of note circulation.

(4) The Bank shall on or before the seventh day of each month make up and transmit to the Minister in the form of Schedule C to this Act a statement of its assets and liabilities on the last business day of the preceding month. Monthly statement of assets and liabilities.

(5) Every return required under the next preceding subsection shall be accompanied by declarations which shall be a part of the return, and the declarations shall be in the form set forth in Schedule C to this Act, and shall be signed by the Chief Accountant or by the Acting Chief Accountant, and by the Governor or the Deputy Governor or the Assistant Deputy Governor. **1936, c. 22, s. 21.** Declarations Schedule C.

(6) The Governor in Council may from time to time, as he deems necessary, amend the form of Schedule C to this Act. Powers to amend.

34. (1) The fiscal year of the Bank shall be the calendar year. **1938, c. 42, s. 15.** Fiscal year.

(2) Within six weeks after the end of each fiscal year, the Bank shall transmit to the Minister a statement of its accounts for the fiscal year, signed by the Governor or the Deputy Governor or the Assistant Deputy Governor and the Chief Accountant or Acting Chief Accountant of the Bank, and certified by the auditors in the form prescribed by the by-laws of the Bank, together with such summary or report by the Governor as he may deem desirable or as may be required by the Minister. **1938, c. 42, s. 15.** Certified statement of accounts to Minister. Governor's report.

(3) A copy of the accounts so signed and certified and of the Governor's report shall be forthwith published in the *Canada Gazette*, and if Parliament is then sitting, shall within fourteen days after the receipt thereof by the Minister be laid before Parliament, or if Parliament is not sitting, it shall be laid before Parliament within fourteen days after the commencement of the next ensuing session thereof. **1938, c. 42, s. 15.** Statement and report in Gazette.

35. Repealed. **1938, c. 42, s. 16.**

36. Repealed. **1938, c. 42, s. 17.**

OFFENCES AND PENALTIES

37. Every person who holds office or continues to hold office as a Governor, Deputy Governor, Assistant Deputy Governor or director of the Bank, knowing that he is not eligible for such office, shall be guilty of an indictable offence and liable to imprisonment for not more than three years and not less than three months. Holding office when ineligible.

38. Every director, officer or auditor of the Bank who verifies any statement, account or list required to be furnished to the Minister pursuant to the provisions of this Act, or who has to do with the delivering or transmitting of the same to the Minister, knowing the same to be false in any material particular, shall be guilty of an indictable offence and liable to imprisonment for not more than five years and not less than six months. Verifying false statement, account or list.

Transmitting any false statement

39. Any officer of a chartered bank who transmits any statement to the Minister pursuant to the provisions of this Act or who has to do with preparing or transmitting the same to the Minister knowing the same to be false in any material particular, shall be guilty of an indictable offence and liable to imprisonment for not more than two years and not less than three months.

Contravention of Act.

40. Any officer of the Bank or any officer of a chartered bank or any other person who fails or omits to comply with any provision of this Act shall be guilty of an offence and, unless otherwise provided by this Act, shall be liable on summary conviction to a fine of not less than one hundred dollars and not more than five hundred dollars.

LIQUIDATION OR WINDING-UP

Insolvency and winding-up.

41. No statute relating to the insolvency or winding-up of any corporation shall apply to the Bank and in no case shall the affairs of the Bank be wound up unless Parliament so provides: Provided, however, that if provision is made for winding up the Bank the notes of the Bank outstanding shall be the first charge upon the assets. 1938, c. 42, s. 18.

ORGANIZATION EXPENSES

Payment of expenses of organization.

42. All moneys required to be expended in connection with the organization of the Bank before the day on which the Bank is authorized to commence business not exceeding one hundred thousand dollars, or in connection with the issue of increased capital stock, shall be paid out of any unappropriated moneys in the Consolidated Revenue Fund, and shall be recoverable from the Bank as a debt due to the Crown at any time after the Bank has been authorized to commence business.

BY-LAWS

By-laws.

43. (1) The Board, with the approval of the Governor in Council, may make by-laws not repugnant to the provisions of this Act with respect to

(*a*) the declaration and payment of dividends;

(*b*) the calling of meetings of the Board and of the Executive Committee and what number of persons shall constitute a quorum in each case, and how questions considered at such meetings shall be determined;

(*c*) the fees of directors and the duties and conduct of officers, clerks and employees of the Bank;

(*d*) the form of the annual statement of accounts; and

(*e*) generally as to the management and disposition of the stock, property and undertakings of the Bank;

and may amend or repeal such by-laws. **1938, c. 42, s. 19.**

(2) Every by-law and every amendment or repeal thereof shall take effect when published in the *Canada Gazette*. 1938, c. 42, s. 19.

SCHEDULE A

Oath of Fidelity and Secrecy

I, ... do solemnly swear that I will faithfully, truly and to the best of my judgment, skill and ability, execute and perform the duties required of me as a director (*officer or employee as the case may be*) of the Bank of Canada and which properly relate to any office or position in the said Bank held by me.

I further solemnly swear that I will not communicate or allow to be communicated to any person not legally entitled thereto any information relating to the affairs of the Bank, nor will I allow any such person to inspect or have access to any books or documents belonging to or in the possession of the Bank and relating to the business of the Bank.

Schedule C

Statement of Assets and Liabilities as at , 19 .

Liabilities—		
1. Capital Paid Up........		
2. Rest Fund..............		
3. Notes in Circulation...		
4. Deposits—		
(a) Dominion Government......		
(b) Provincial Governments		
(c) Chartered banks		
(d) Other		
Total		
5. Sundry Liabilities Payable in Sterling, U.S.A. and Foreign Gold Currencies		
6. All Other Liabilities..		
Total		

Assets—		
1. Reserve—		
Gold coin and bullion		
Silver bullion.....		
Sterling and U.S.A. dollars		
Other Currencies, of countries on a gold standard		
Total		
2. Subsidiary Coin.........		
3. Bills Discounted........		
4. Advances to—		
(a) Dominion Govment		
(b) Provincial Governments..		
(c) Chartered and Savings Banks		
Total		
5. Bills Bought in Open Market, not including Treasury Bills..........		
6. Investments—		
(a) Dominion and Provincial Government short term securities		
(b) Other Dominion and Provincial Government securities		
(c) Other securities		
Total		
7. Bank Premises..........		
8. All Other Assets.......		
Total		

Ratio of Net Reserve (Item 1 of Assets less Item 5 of Liabilities) to Notes and Deposit Liabilities: per centum.

I declare that the foregoing return is correct according to the books of the Bank;

Chief Accountant.

I declare that the foregoing return is to the best of my knowledge and belief correct, and shows truly and clearly the financial position of the Bank, as required by section thirty-three of the Bank of Canada Act.

Ottawa, this day of , 19 .

Governor.

P.C. 2879 dated Nov. 12, 1936.

EXTRACTS FROM THE BANK ACT

24-25 George V, Chap. 24 (1934)

CASH RESERVES

59. (1) The bank shall hold in Dominion notes not less than forty per centum of the cash reserves which it has in Canada. Cash reserves in Dominion notes.

(2) The Minister shall make such arrangements as are necessary for ensuring the delivery of Dominion notes to any bank in exchange for an equivalent amount of gold coin lawfully current at the several branch offices of the Department of Finance established for the redemption of Dominion notes under the provisions of the *Dominion Notes Act*. Supply of Dominion notes.

(3) Such notes shall be redeemable at any of the branch offices mentioned in subsection two hereof. Redemption.

(4) The next three preceding subsections of this section shall be repealed on and from the date on which the Bank of Canada is authorized to commence business, and on and after that date the bank shall maintain a reserve which shall, subject to the provisions of the *Bank of Canada Act*, be not less than five per centum of its deposit liabilities within Canada and which shall consist of a deposit with the Bank of Canada, and of notes of the Bank of Canada held by the bank; and the bank shall also maintain with the Bank of Canada or elsewhere adequate reserves against liabilities elsewhere than in Canada, and furnish such information as may be required by the Minister from time to time to satify him that such reserves against external liabilities are so maintained. R.S., c. 12, s. 60, am. Limited operation of section.

ISSUE AND CIRCULATION OF NOTES.

60. (1) The bank may issue and re-issue its notes payable to bearer on demand and intended for circulation: Provided that Issue of notes.

(*a*) the bank shall not, during any period of suspension of payment of its liabilities, issue or re-issue any of its notes; and Proviso.

(*b*) if, after any such suspension, the bank resumes business without the consent in writing of the curator, hereinafter provided for, it shall not issue or reissue any of its notes until authorized by the Treasury Board so to do.

(2) No such note shall be for a sum less than five dollars, or for any sum which is not a multiple of five dollars. $5, or multiples.

(3) Except as hereinafter provided, the total amount of the notes of a bank in circulation at any time shall not exceed the aggregate of Amount limited.

(*a*) the amount of the unimpaired paid up capital of the bank; and

(*b*) the amount of current gold coin and of Dominion notes held for the bank in the central gold reserves hereinafter mentioned.

(4) The Association may, with the approval of the Minister, appoint three trustees and the Minister may appoint a fourth trustee, and the trustees so appointed shall receive such amounts in gold Appointment of trustees.

coin and Dominion notes, or either, as any bank may desire from time to time to deposit with them; and such amounts so deposited are herein referred to as "central gold reserves" and shall be held and dealt with in accordance with the provisions of this Act.

"Central gold reserves." By-laws repecting.

(5) The Association may make by-laws, rules and regulations under section one hundred and twenty-four of this Act respecting the custody and management of the central gold reserves and the carrying out of the provisions of this Act relating to such reserves.

Excess deposits in central gold reserves.

(6) When and so long as the amount of notes of a bank in circulation in excess of its unimpaired paid-up capital is less than the amount deposited by it in the central gold reserves, the excess of the amount so deposited shall belong to the bank as its property, and the bank may apply to the trustees for a return of the excess last mentioned, and upon receiving from the bank a statement signed by the chief accountant and by the general manager or other principal officer next in authority in the management of the affairs of the bank at the time the statement is signed, and otherwise in the form provided by said by-laws, rules or regulations, setting forth to the best of the information and belief of these officers the amount of the notes of the bank in circulation on the date of such statement, the trustees shall return the whole or part of the deposit of the bank, as the case may be.

Withdrawal.

(7) On and from the date when such statement is transmitted by registered post or delivered to the trustees, the amount applied for shall, for the purpose of the statement to be made by the trustees to the Minister under subsection nine of this section, and for the purpose of calculating the total amount of the authorized note circulation of the bank, be deemed to have been withdrawn from the central gold reserves and shall not be taken into account in such statement nor included in such calculation.

Exception.

(8) Should the total amount of the notes of the bank in circulation be found, by reason of such withdrawal, to be in excess of the circulation of the bank authorized by this Act the bank shall not be deemed to be released or relieved from any of the penalties imposed by this Act for circulation of the notes of a bank in excess of the amount authorized by this Act.

Statement to be sent to Minister.

(9) The trustees shall prepare and transmit by registered post or deliver to the Minister within the first twenty days of each month a statement signed by them showing the amount on each juridical day of the preceding month of the deposit of each bank in the central gold reserves and not withdrawn or deemed to be withdrawn under the provisions of this section.

Inspection and audit of gold coin and notes.

(10) The Minister shall, from time to time, and not less frequently than twice in each year, cause an inspection and audit of the gold coin and Dominion notes held by the trustees to be made by officers of the Department of Finance.

Particulars of inspection.

(11) It shall be the duty of such officers

(*a*) to inspect and ascertain the amount of gold coin and Dominion notes held by the trustees for the respective banks at the date of inspection; and

(*b*) to ascertain from the books and accounts, documents and vouchers of the trustees the amounts of gold coin and Dominion notes held by the trustees for the respective banks at any preceding date named by the Minister.

(12) Every such officer shall have a right of access to the gold coin and Dominion notes held and to the books and accounts, documents and vouchers of the trustees, and shall be entitled to require from the trustees such information and explanation as may be necessary for the performance of his duties. Powers of inspecting officer.

(13) Should the bank become insolvent within the meaning of this Act, the amount held for it in the central gold reserves shall be paid by the trustees to the liquidator or other person entitled by law to collect and receive the assets of the bank and shall be applied in redeeming the notes of such bank in circulation or in making the payment to the Minister required by section one hundred and sixteen of this Act and for no other purpose. When bank insolvent.

(14) When a vacancy in the office of a trustee appointed by the Association occurs, by resignation, death or other cause, a trustee to fill the vacancy shall, subject to the approval of the Minister, be appointed by the Association; and when a vacancy occurs in the office of a trustee appointed by the Minister, the trustee to fill the vacancy shall be appointed by the Minister. Vacancy in office of trustee.

(15) The remuneration of trustees, including that of the trustee appointed by the Minister, and all charges and expenses incidental to the establishment and maintenance of the central gold reserves, shall be borne by the Association as the Association may, by by-law, rule or regulation determine. Remuneration of trustees

(16) During the usual season of moving the crops, that is to say, from and including the first day of September in any year to and including the last day of February next ensuing, in addition to the said amount of notes hereinbefore authorized to be issued for circulation, the bank may issue its notes to an amount not exceeding fifteen per centum of the combined unimpaired paid-up capital and rest or reserve fund of the bank as stated in the statutory monthly return made by the bank to the Minister for the month immediately preceding that in which the additional amount is issued. Additional issue during moving of crops.

(17) Whenever, under the authority of the next preceding subsection, the issue of an additional amount of notes of the bank has been made, the general manager, or other principal officer next in authority in the management of the affairs of the bank for the time being, shall forthwith give notice thereof by registered letter addressed to the Minister and to the president of the Association. Notice of additional issue.

(18) While its notes in circulation are in excess of the aggregate referred to in subsection three of this section, the bank shall pay interest to the Minister at such rate, not exceeding five per centum per annum, as is fixed by the Governor in Council, on the amount of its notes in circulation in excess from day to day; and the interest so paid shall form part of the Consolidated Revenue Fund. Interest on additional issue.

(19) A return shall be made and sent by the bank to the Minister showing the amount of its notes in circulation for each juridical day during any month. Return by bank.

(20) Such return shall be made up and sent within the first twenty-eight days after the last day of the month next preceding and shall be accompanied by declarations which shall be a part of the return and the return and such declaration shall be in the form set forth in Schedule I to this Act, and shall be signed by the chief accountant, and by the president or a vice-president or the director then acting as president, and by the general manager or other principal officer next in authority in the management of the affairs of the bank at the time at which the declaration is signed: Time and form of return. Signatures thereto.

Provided, however, that the Governor in Council shall have power from time to time to make such amendments and additions to the items required to be set forth in the said Schedule as he may deem expedient.

Repeal of sub-secs., 3-18 sec. 60.

61. (1) Subsections three to eighteen, both inclusive, of the next preceding section shall be repealed on and from the day on which the Bank of Canada is authorized to commence business.

Maximum circulation.

(2) Notwithstanding anything contained in the next preceding section, on and after the day on which the Bank of Canada is authorized to commence business, the maximum amount of notes of a bank in circulation at any time shall not exceed the amount of the unimpaired paid-up capital of the bank on the said day on which the Bank of Canada is authorized to commence business, and on the first day of January in each year for a period of five years commencing on the first day of January nineteen hundred and thirty-six the said maximum shall be reduced by five per centum and on the first day of January in each year for a period of five years commencing on the first day of January nineteen hundred and forty-one the said maximum shall be reduced by ten per centum and thereafter until Parliament further enacts, the amount of notes of a bank in circulation shall not exceed twenty-five per centum of the amount of the unimpaired paid-up capital of the bank. In the event of any reduction or impairment of the paid-up capital, the maximum amount of notes of the bank which may be in circulation shall be reduced to the amount which would have been authorized if the reduction or impairment aforesaid had occurred on the day on which the Bank of Canada was authorized to commence business.

Effect of reduction or impairment of capital.

Circulation elsewhere than in Canada.

(3) The next preceding subsection shall not operate to limit the authority of the bank to issue notes under the provisions of the next succeeding section of this Act, provided that the total amount of the notes which may be in circulation in Canada and elsewhere shall not in any circumstances exceed the amount of the unimpaired paid-up capital of the bank.

Bank commencing business, to be subject to this section.

(4) In the case of a bank authorized to commence business after the day on which this section comes into force, the said bank shall be subject to the provisions of this section as if it had been authorized to commence business on the day on which this section comes into operation.

INSOLVENCY

Liability of shareholders.

125. (1) In the event of the property and assets of the bank being insufficient to pay its debts and liabilities, each shareholder of the bank shall be liable for the deficiency to an amount equal to the par value of the shares held by him, in adition to any amount not paid up on such shares.

Provision for reduction.

(2) On and from the day on which the Bank of Canada is authorized to commence business the liability of a shareholder of a bank under this section, in addition to any amount not paid up on his shares, shall not exceed that proportion of the par value of the shares held by him which the amount of notes which the bank is authorized by this Act to have in circulation in Canada bears to the paid-up capital of the bank.

"Shareholder" defined.

(3) "Shareholder," within the meaning of this section, shall include an undisclosed principal and, to the extent of his interest, a *cestui que trust*, on whose behalf or for whose benefit shares in the capital stock of the bank are held. R.S., c. 12, s. 125, am.

SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 11

THURSDAY, MAY 4, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

THURSDAY, May 4, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Cleaver Deachman, Donnelly, Dubuc, Fontaine, Hill, Howard, Jaques, Kirk, Lacroix (*Beauce*), Landeryou, Leduc, Macdonald (*Brantford City*), McGeer, Moore, Ross (*St. Paul's*), Stevens, Taylor (*Nanaimo*), Tucker, Vien, Ward.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Examination of Mr. Towers was continued.

Messrs. Cleaver and McGeer submitted questions to be printed in this day's proceedings and answered by Mr. Towers in due course.

Mr. Towers submitted information requested at the last sitting by several members of the Committee (*See Appendix "A"*).

It was agreed that Mr. Towers add to this day's proceedings references to pages of the evidence where may be found certain information requested during the course of to-day's examination, and already dealt with by Mr. Towers in previous statements to the Committee. (*See Appendix "B"*).

At 1.05 p.m. the Committee adjourned until to-morrow, Friday, at 11 o'clock a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons, Room 277,

May 4, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The Chairman: We have a quorum, gentlemen.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

The Chairman: Mr. Stevens, you have the floor.

Hon. Mr. Stevens: Well, Mr. Chairman, I have a number of questions to ask when the opportunity arises, but do I understand that it is the——

The Chairman: I have just spoken to Mr. McGeer.

Mr. McGeer: What Mr. Moore said to me, Mr. Stevens, was that you wanted to ask four or five questions this morning. I am in the midst of my examination. My difficulty is I have to go to the public accounts committee and I thought I could get through here to-day.

Hon. Mr. Stevens: I think possibly it would be better to let Mr. McGeer finish.

Mr. Howard: Why not take half an hour and go to your other committee?

Mr. Deachman: The trouble is, if you take half an hour it won't be through by that time.

Mr. McGeer: The only thing about it is I cannot be here after, I think, to-day. My time will be taken up by the other committee because we are getting into several important matters here. I thought that if I finished my examination here every member of the committee would have the basic facts of our monetary system before him and in his questions could make use of these basic facts as he goes along.

Mr. Deachman: Is Mr. McGeer going to take the whole day?

Mr. Landeryou: If he does it will save us asking a lot of questions, as he is really covering the same ground.

Mr. Vien: I should like to make what I think is a constructive remark. I am addressing myself to Mr. McGeer, who is an eminent lawyer. I am quite confident that he will take my remarks in good part. It seems to me that what would be desirable to save time as well as obtaining his objective would be to put on the record the facts, and limit himself, as we do in court, to asking questions on facts. When the facts are on the record we can then develop the argument. It seems to me that we are slipping here like we do in court. It is difficult to do otherwise. Sometimes in court, and we have done it here, we leave the line of questions to enter into a statement made on questions of policy. I make these remarks in a most friendly way, hoping they will be useful.

The Chairman: Thank you. All right, Mr. McGeer.

Mr. McGeer: I had that suggestion from Colonel Vien yesterday, and it is quite in line with what is my own desire. The questions that I propose to base on these enactments that I am putting on the record will give the history of our banking enactments.

By Mr. McGeer:

Q. We were dealing at the close of last evening with subsection (4) of section 59 of the Bank Act, chapter 24 of the Statutes of Canada, 1934, entitled An Act Respecting Banks and Banking. I think we got to the point where we were discussing whether or not there was any other authority in the Bank Act upon which the banks could issue deposits as a substitute for money; and I should like to draw your attention to, first, that it is that form of deposit which is referred to in section 74 of the MacMillan committee report. This report says: "the bulk of deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft of purchasing securities a bank creates a credit in its books, which is the equivalent of a deposit."

I think you will agree that when the bank takes a government security and exchanges that for a deposit it does increase the bank's deposit money in circulation?—A. It does increase the bank's deposits, other things being equal.

Q. Outside of section 4, that type of lending is, I submit, not specifically authorized by any— —A. As I said at our last meeting, I do not agree with that because I think that the numerous sections of the Bank Act which give the banks power to buy government bonds, to make advances and to accept deposits, convey, naturally—it being the Bank Act—what the business of banking is.

Q. Well, in any event, outside of these general powers, there is no specific authority to issue a bank deposit as a means of purchasing security?—A. I do not agree with the word " issue." I think when the banks make a loan they credit the account of the depositor. He may leave that with the bank, or he may withdraw it. I think that the Bank Act as a whole,—perhaps this is on the surface a foolish remark—deals with the business of banking, and part of the business of banking is referred to in the Macmillan report.

Q. The point I have specifically in mind here is whether or not there is any legislative authority authorizing the banks to purchase securities by increasing their money liability to the depositors?—A. The legislative authority covers the business of banking. The type of thing you mention is part of the business of banking; I cannot add anything to that.

Hon. Mr. STEVENS: What about sections 88 and 89?

Mr. McGEER: I do not think they authorize that. I mean, that is my own interpretation of it. My interpretation of it would be that sections 88 and 89 authorize the taking of securities, do they not? But the point that I have in mind is these general provisions apply to the bank capital and they apply to the moneys on deposit which are not created by the bank itself increasing deposits as a means of purchasing securities or making loans or financing overdrafts.

I submit there are three more forms of capital available to the banks. There is its paid-in capital, plus its right to issue money on the percentages provided under the act now up to the value of the unimpaired capital. There is then the depositors, the people who place money which they own with the banks on deposit. Then there is another form which the banks exercise of increasing their deposits as a means of financing loans, purchasing securities and financing overdrafts. Now, you segregate these three powers of finance. I am submitting that with the exception of subsection (4) of section 59 there is no legislative enactment which authorizes the banks to employ that kind of capital. Mr. Towers' answer to that is that you must infer that that power is given to them by reading the Bank Act as applying to the business of banking. —A. It is not, of course, a unilateral power. I do not distinguish between the two types of deposit you mention, the one which is brought to the bank in the form of legal tender cash or any other form of deposit the bank may have. It is always a voluntary action of the depositor which leaves that deposit on

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the books of the bank, and brings it to the bank; it is always voluntary action of the depositor. The Bank Act itself authorizes the bank to receive deposits. Surely I would be right in assuming that during the course of the various revisions of the Bank Act its provisions were passed by a parliament which understood the business of banking.

Q. I am not criticizing the methods employed. What I am getting at is whether or not there is any legislative enactment specifically authorizing the banks to purchase securities, government bonds, by merely writing an entry, which is the equivalent of the purchase price in their books, and calling that entry a deposit?—A. If it is not a deposit, then I am completely off the track, I do not know what it is.

Q. Of course, as I said before, the only type of deposit there is in that is the deposit of government security with the bank and the deposit of the ink upon the banker's books which creates the deposit.—A. That is, the money which you have in your savings account, for example, is not a deposit?

Q. Well, I should like to go into that later. What I am giving to the committee is the statement that the whole process involves the practice of trading short in money and trading long in credit liabilities.—A. That is a very deceptive analogy, and I find it confusing.

Q. I think probably it is a matter of argument later on.—A. I see.

Q. But if there is any other section specifically authorizing that use of power, I have not been able to find it in the Bank Act. If you know of any I should like to know it?—A. It would not be proper for me to enter into an argument on legal matters, Mr. McGeer. I suppose that the act passed by parliament should be commented on by the law officers of the crown. They would be the proper people to comment on that.

Hon. Mr. Stevens: Mr. McGeer, would you not get that in section 75? May I just interject one suggestion to you? If I go into the bank and tender them my note for a loan which they accept, and then they place the proceeds to my credit, you create a deposit there, but is not the real transaction here: the bank has bought my paper which is, under section 75, within their power?

Mr. McGeer: What I am submitting is there are three ways by which the banks can buy that note.

Hon. Mr. Stevens: Is not that what they do actually?

Mr. McGeer: I do not think that is what they do. For instance, if the bank has a paid-up capital of $1,000,000 and you walk into the bank and you give your note and get a part of that $1,000,000 of paid-up capital, then it is a clear transaction.

Hon. Mr. Stevens: I am not saying that.

Mr. McGeer: There is another way by which the bank can buy that note, and that is by using depositors' money. Now, there is a third way, without having access or without employing any portion of the bank's paid-up capital, and without going to any depositor's account and employing a portion of the depositor's money, the bank has another means. It simply writes a deposit entry in the books.

Hon. Mr. Stevens: I agree with all that.

Mr. McGeer: As a result of that you have the banks representing to the public that they have on deposit a very much greater sum of money than the total money in existence in the whole country, and far in excess of any amount of money that could be issued on the total volume of bank reserves in the form of gold held under the act. I quite agree that section 75 deals with the powers of the banks to loan and purchase securities, but the assumption is that they are dealing with their own captial and money actually on deposit.

Mr. Howard: The depositors' money?

Mr. McGeer: To read into that section that they have the power to resort to a book-keeping system to finance loans and transactions is something that I cannot find is a correct interpretation of the law. I may be entirely wrong about my interpretation of it, and all I wanted to get from Mr. Towers was, in addition to these general provisions, is there any specific enactment authorizing the banks—

Mr. Towers: I would say this, that in section 75 (*d*) you find that the banks are authorized to engage in and carry on such business as pertains to the business of banking. Now, that business of banking is carried on in Canada and is carried on in every country in the world and has been carried on for a period of hundreds of years. To assume that parliament in its various revisions of the Bank Act had no conception of the business of banking, an assumption which I would not make.

By Mr. McGeer:

Q. I may tell you, Mr. Towers, that you can assume that correctly because to many public men, including ministers of finance, it has become a mark of sophistication to say: "I do not know anything about banking or money." One minister of finance boldly declared that because he did not know anything about finance, banking or money, we could assume from that that he would make a good minister of finance.

Mr. Landeryou: Hear, hear.

Mr. Towers: On the other hand—

Mr. McGeer: Don't run away with the idea—

Mr. Howard: And he did.

Mr. McGeer: We went millions deeper into the hole of debt after he got there than we were before he started. If that is a good minister of finance then I think it must be due to the point of view from which you are looking at it. If you are looking at it from the point of view of the taxpayer it is disastrous; if you are looking at it from the point of view of the debt holder, of course, he was a good minister of finance.

Mr. Towers: On the other hand, apparently the business of banking has become a new idea to various people in the last few years; it has come over them with a rush, so to speak, and I should think that in a good many cases the information has not been properly assimilated.

By Mr. McGeer:

Q. As a matter of fact, you will agree, will you not, that in every country in the world the question of finance as a national policy is under investigation and has been under experimentation say for the last hundred years, and that during the last twenty years—

Hon. Mr. Stevens: Fifteen.

By Mr. McGeer:

Q. From 1912 when the Federal Reserve Act came into being it has been a matter of investigation and public study by banking and commerce committees all over the world.—A. I would say the very widespread character of the interest, and therefore the study, dates most specifically from 1930.

Q. You are aware that right at the present time the governor and the directors of the federal reserve system have made a report to Congress that they believe the whole banking laws and system of the United States should be reconsidered and revamped for the benefit of the United States?—A. Reconsidered, yes. In revamping they are thinking particularly of their internal organization and the clash of various authorities in the country. The recommenda-

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tion is also partly based on the idea that various proposals which have been made by people who are interested in money matters should be investigated. I hope that they go ahead with it, because almost all the proposals can be found in Canada, so the result of their investigation would be helpful here.

Q. And you will agree with the basic finding of the Macmillan committee report which was filed in 1931, which states this in section 280, on page 118 of the report:—

Hon. Mr. STEVENS: The British report?

By Mr. McGeer:

Q. The British report. I am quoting from section 280:—

> (1) The monetary system of this country must be a managed system. It is not advisable, or indeed practicable, to regard our monetary system as an automatic system, grinding out the right result by the operation of natural forces aided by a few maxims of general application and some well-worn rules of thumb. The major objectives of a sound monetary policy—for example, the maintenance of the parity of the foreign exchanges without unnecessary disturbance to domestic business, the avoidance of the credit cycle, and the stability of the price level—cannot be attained except by the constant exercise of knowledge, judgment and authority, by individuals placed in a position of unchallengeable independence with great resources and every technical device at their disposition.

Do you recall any other instance in the history of British finance where a parliamentary committee recommended the need for the establishing of a managed currency system under the control of men of unchallengeable independence who were going to do the things mentioned by the exercise of great resources and every technical advice at their disposition?

Do you ever remember in British finance such sweeping recommendations as were made by the monetary committee of the Imperial conference which met in Ottawa in 1932, confirmed in the conference of London in 1933, where it was laid down that each of the British Empire nations should invoke a programme of national monetary policy which would create an abundance of money and low rates of interest?—A. No. I have never suggested that I would not agree with that.

Q. So that when we come to the work of this committee we are not out of line if we seek to improve our monetary system?—A. Certainly not.

Q. By study, and discussion with the proper authority?—A. Certainly not.

Q. Is not that what is being done in Great Britain, the United States, Australia, New Zealand and all the other countries of the democracies we might say?—A. Quite.

By Mr. Tucker:

Q. Along that line; do you think that the parliament of Canada in establishing a Bank Act realized that it was giving to the chartered banks of the country the right in the long run to issue the bulk of the money of the country?—A. Provided the depositors wished to leave the money on deposit with them.

Q. Do you think it was realized at that time, isn't this a new development. I think that is so.—A. No.

Q. Isn't that what Mr. McGeer is getting at?—A. Oh, no.

Q. On the banking system and deposits whereby money could be created?—A. There have been many revisions of the Bank Act since the use of cheques rather than notes.

Q. No, no; I mean it is a development within the last fifty years?—A. There have been many revisions of the Bank Act within the last fifty years.

Q. I mean, that was not originally the intention?—A. Many people nowadays appear to be confident that they can speak for the fathers of confederation. I am not one of them.

Mr. Factor: At any rate, Mr. Towers, I think it must be granted that this right which was given to them has turned out to be the right to issue money, and I do not think it was ever intended to give that right.

By Mr. McGeer:

Q. I just put this before you, it is the statement of the federal reserve board which was transmitted to the chairman of the committee on banking and commerce in the Senate and the House of Representatives recommending congressional study of the monetary measures. I think it is also of interest to us here.

> Notwithstanding the inherent limitations upon the influence of monetary and credit action on economic conditions, the board is convinced of the importance of such action at certain times, and feels strongly the necessity of having the mechanism of monetary and banking control and supervision at all times in condition to function effectively in the public interest.
>
> In its annual report for 1938 the board pointed out that our present system of regulation and supervision over money and banking, notwithstanding many improvements made in recent years, is still defective in many respects.

You are also aware that they pointed out that although they had an abundance of the supply of money in the United States that they were not for some reason or other seemingly able to get that money into circulation on a productive basis and on a basis that would assist going concern activity in that country, so that while their laws may be somewhat different from ours their major problems are identically the same, are they not?—A. Oh, I would say that there are quite material variations.

Q. Yes?—A. Because of the economic character of the United States.

Q. But all the problems of banking—the abundance of money and a lack of circulation—is common to both systems to-day?—A. Yes, although the reasons may be different.

Q. I quite agree; but in any event the thing that we are all agreed upon is that we should seek to find some more effective way of controlling and sustaining the continuity of circulation of the medium of exchange in the general structure of the nation?—A. Examining, as you suggested the other day, the reasons why there is such a problem at the present time, and perhaps taking into consideration that these reasons may be non-monetary. If they turn out to be non-monetary perhaps it might be important to study matters of a non-monetary character.

Q. Quite so, but if there are some monetary factors which are there establishing this problem—if we find there are non-monetary factors they must be dealt with in some other tribunal, I assume?—A. Yes.

Q. Now, the other sections of the Bank Act that deal with this particular matter are sections 60 and 61 and section 125. Sections 60 and 61 deal with the merchant bank note issue, and section 125 deals with the liability on the percentages?—A. And then there is section 95 which authorizes the bank to receive deposits.

Q. Section 95; well, that is mostly dealing with persons unable to contract; but I mean, all the deposit provisions are in the general powers of section 78?—A. Yes.

Q. I was not dealing with that so much as I was dealing with the money issue powers. You see, what I have directed this examination to, Mr. Towers,

[Mr. Graham Ford Towers.]

is the money that comes from the Currency Act, the money that comes from the Bank of Canada Act, and the money that comes from the Bank Act; that is, that we allow the banks to issue credit, and issue deposits as they do, and that is the source of the money supply for the nation. I thought we agreed on that—the authority of the Currency Act is for the issue of subsidiary coin, and the authority of the Bank of Canada Act is for the issue of the Bank of Canada bills?—A. You agree with that, don't you?—A. Yes.

Q. And, of course, taking a deposit from an individual does not create under this Act a new supply of money.—A. What form would the individual deposit take?

Q. For instance, if I had a deposit in the Bank of Commerce and decided to transfer that deposit to the Royal Bank of Canada I would increase the deposits in the Royal Bank of Canada and decrease the deposits in the Bank of Commerce?—A. Yes.

Q. But I would not increase the sum total of money at all?—A. How would you get your deposit in the Bank of Commerce in the first place?

Q. I take it I might have got it as the result of loans for the purchase of securities or financing overdrafts?—A. Yes.

Q. Or digging gold out of the ground?—A. Yes.

Q. Or possibly as I thought the transfer of wealth from abroad to a bank here; but as I understand you to say on that I am not correct; I thought that would increase the deposits in Canada by that process?—A. No, you could not.

Q. Of course, I was apparently wrong on that—if I am. What I am talking about is increasing the supply of money. I mean, that the government takes bullion into the mint and turns out money and that increases the money supply if something is not withdrawn in proportion?—A. Yes.

Q. Similarly when you purchase gold and issue Bank of Canada notes, that increases the money supply.—A. Yes.

Q. If banks discount bonds, make loans, or allow overdrafts by increasing the total volume of their deposits, it increases the money supply as well?—A. Yes.

Q. And these features of the Bank Act I am now dealing with have to do with the increase in the money supply; and as I stated, the sections that authorize that are sections 59, 60 and 61, and the general provisions of the Bank Act authorizing the banks to carry on a banking business in the form these powers are set out there?—A. I say that without having made any section-by-section examination of the Bank Act, of course.

Q. Now, the other enactment which a reflection of modern times is the Act respecting the export of gold, chapter 33 of the Statutes of Canada of 1932. Now, that Act authorizes the Governor in Council to prohibit from time to time for any period the export of gold whether in the form of coin or bullion from the Dominion of Canada except in such cases as may be deemed desirable by the Minister of Finance and under licence to be issued by him, provided that no such licence shall be issued to other than a Canadian chartered bank; and then there is the general power in section 3, for the Governor in Council to deny exports altogether; and then there is the general power in section 4 of the exchange regulation, as the Governor in Council sees fit to carry out under this Act. I submit that that Act virtually gives to the government of Canada control over gold produced in the Dominion, control over the movement of gold produced in the Dominion?—A. I wonder, Mr. McGeer, if I am the best person to examine on that? I do not know. Perhaps the Finance Department is best qualified to give their interpretation of that statute?

Hon. Mr. Stevens: There is an amending Act deleting the proviso that you quoted under section 2, which probably ought to be put on the record.

Mr. McGeer: What is that?

Hon. Mr. Stevens: I say, there is an amending Act which was passed in 1938 which should also be on the record.

Mr. McGeer: Oh, yes, but the result of that is only to make it tighter, it applies to the Bank of Canada. You say that you are not prepared to say anything about that particular Act.

By Mr. McGeer:

Q. Might I ask you this question; as a matter of fact in actual banking practice is it not true that in operation the government is in control of the movement of gold produced in Canada?—A. The government buys gold from the mines under an arrangement with them in respect to prices, and so on and so forth. Therefore, it would be true to say that the practice in the last few years has been for the mines to sell their gold to the government.

Q. Which really means that in practice to-day the government is in virtual control of the situation; isn't that correct?—A. I do not know; if the mines do not wish to sell their gold, of course, they need not do so. What would then happen I do not know.

Q. I see. Well now, we have certain constitutional limitations in our British North America Act which in all money matters, banking matters, interest matters, currency matters, reserves to the exclusive jurisdiction to the Parliament of Canada the right of legislative enactment. In other words, no authority in Canada other than the Parliament of Canada can legislate with respect to money, banking, interest, currency, or Canadian money matters.—A. That is my understanding of it. I would much sooner take your word for it than my own, Mr. McGeer. There are other authorities who do take savings deposits and decide what interest they should pay on them, of course.

Q. I am rather inclined to think that is a doubtful exercise of a provincial power; however, I may be wrong about that, but the actual facts are that banking, currency and interest rates are within that?—A. Yes.

Q. Now, does not that place a direct responsibility on parliament to supply the nation in its national aspects, in its provincial aspect, in its municipal aspect, and in its private individual aspect—that is, including corporations—the responsibility of finding a medium of exchange necessary to sustain the going concern activity of the nation?—A. I should make what is perhaps a better statement of that; i.e., it is the responsibility of parliament to see that the country is provided with the best financial mechanism that the wit of man can devise.

Q. You, in the light of that, would not object to this as a sound statement of public policy: in the matter of banking and finance credit is a public matter not of interest to bankers only but of direct concern to the average citizen. It is necessary to establish a properly constituted national bank to perform the functions of rediscount and the control of currency issue construed in terms of public need. A central bank is necessary to determine the supply of currency in relation to the domestic, social and industrial requirements of the Canadian people, and also to deal with the problem of international commerce and exchange. And, certainly, the currency issue should be construed in terms of public need, not possible private grain. When the government hands over to a private institution that is the creation of parliament the supreme power in the matter of financial policy, in the matter of control of social credit and the issue of currency, parliament passes all its powers to a private institution and allows it to go its way leaving parliament as the representative of the people in a position where once such a bank is established and free to pursue its own course parliament no longer would have any right of control over it?—A. Whose evidence is that?

Hon. Mr. Stevens: What is that, some statement you are reading?

Mr. McGeer: This is just a statement of public policy which I am offering to you, let us say, as my own.

Mr. Towers: Oh.

[Mr. Graham Ford Towers.]

Mr. McGEER: You will get the source of it in due time, but I am offering it now as my own.

Mr. TOWERS: Yes.

Mr. McGEER: But it comes from a fairly high authority.

Hon. Mr. STEVENS: I thought you were reading from a book.

Mr. McGEER: No, just from notes of my own. Now, the policy goes on to say: once the nation parts with the control of its currency and credit it matters not who makes the nation's laws.

Some hon. MEMBERS: Hear, hear.

Mr. McGEER: Usury once in control will wreck any nation until the control of the issue of currency and credit is maintained by the government—

Hon. Mr. STEVENS: Is that the MacMillan report?

Mr. McGEER: No, it is an interpolation of a report on a like basis.

Hon. Mr. STEVENS: I beg your pardon.

Mr. McGEER: Until the control of the issue of currency and credit is maintained by the government and recognized as its most conspicuous and sacred responsibility, all talk of the sovereignty of parliament and of democracy is idle and futile.

Hon. Mr. STEVENS: That fellow seems to know what he is talking about.

Mr. TUCKER: It is good.

By Mr. McGeer:

Q. I take it that as a general proposition under the constitution parliament has the exclusive jurisdiction, power to deal with the creation, with the issue, and in so far as monetary action or bank control or government control can do it, regulation of speculation; that with respect to the policy I have outlined parliament should be the instrument of control; do you agree with that?—A. I do not think it is for me to express views on what parliament should do. I think that I must limit myself, and within the extent of my knowledge, to answering as best I can questions of fact.

Q. Yes. Well, you will agree with this as Governor of the Bank of Canada, that there is a line of cleavage between the two propositions of issuing currency and credit in terms of public need, and issuing currency and credit in terms of possible private gain?—A. Again, I come back to a question of fact, and I would have to have a definition there of what is meant by the terms of "public need" and "private gain."

Q. Well, for instance, without going into any great detail, I would say that public need as expressed in Canada would be the need of a national government, the needs of provincial governments, the needs of municipal governments and other local authorities, the needs of those engaged in Canadian trade and commerce and industry, external as well as internal, and the needs of those who are entitled to be taken care of through the medium of the administration of a sound system of social service.—A. Do you define these needs as needs for paper money?

Q. Personally, Mr. Towers, I would not care how they were financed, whether it was with paper money or metal money or a system of bank deposits which existed in the form of book-keeping accounts. I do not care what form it is, but I do want to know, as a public man in Canada, why we cannot do the things because we have not got the money, that every member of parliament would like to see done in the dominion.

Mr. LANDERYOU: Hear, hear.

Mr. TOWERS: The proposition would have to be put to me in a much more definite form before it would be possible for me or any human being to make an answer. If the proposition is that the expenditure for requirements of all

governments should be provided by the issue of additional credit, then the only answer I can give to that proposition is one which has been already made. Now, if needs properly defined are needs which the public, including government, would only want to be filled provided that it was in the best interests of the country—

By Mr. McGeer:

Q. We all agree, Mr. Towers, that there are cries for defence— —A. Mr. McGeer, I do not think that I am here to say that there are no great needs around this country. I think that the only thing that I can express an opinion on would be some definite proposal that those needs should be filled in such and such a way; and again, it would not be within my power to determine ultimately whether they were filled in that way or in some other way, but only to express such opinions as I can about the result of doing this or that thing.

Q. Well, now, you know— —A. I am absolutely ham-strung, so to speak, in trying to deal with generalities.

Q. You know Mr. Marriner Eccles?—A. I do.

Q. Of the federal reserve banking system of the United States?—A. Yes.

Q. He holds relatively the same position in the United States as you hold in the Dominion of Canada?—A. Yes.

Q. Do you follow the proceedings of the federal reserve system at all?—A. As much as I can.

Q. Recently he appeared before the banking and commerce committee of the American Senate, on Friday, March 24th. May I just submit to you a statement which he made to that committee, because I should like to ask your opinion as to whether or not the same situation does not apply in Canada. This is what he says:—

> Employment and national income depend not merely on the volume of money in existence but also on the use that is made of this money. To-day we have large holdings of idle deposits and currency which, if put to use by the owners, would employ all our workers and would produce a national income adequate for a reasonable degree of prosperity.

We certainly have a large volume of idle credit and currency in Canada, have we not?—A. Yes.

Q. We certainly have a large volume of unemployed in Canada.—A. That is right.

Q. According to your last statement unemployment in Canada is again going up towards the figure of the lowest point in the depression, is it not?—A. I did not understand that.

Mr. Howard: It is not very far from it; it is serious.

Mr. Towers: It is serious.

By Mr. McGeer:

Q. I would say that in both instances.—A. We all concur in its existence.

Q. We can take a million as a round figure?

Hon. Mr. Stevens: On relief.

Mr. McGeer: On relief. And knowing the provincial situation and the general decline of public works that has taken place all over Canada, we can look forward to a very serious situation.

Mr. Towers: I do not suppose there is anyone in this room who would deny that the situation is unsatisfactory; but if I may say something here, it is the general practice of people who urge monetary reform—I could name a name which is well known in Canada, although he does not live in Canada, who is one of these people. His books have a very strong appeal and it has always seemed to me that one of the reasons for that is that anyone can agree

with 99 per cent of what he says, because roughly 99 per cent is devoted to these statements: "Do you want poverty; do you think that unemployment is desirable?" No, no! All along the line you agree with him until that last moment when he comes to saying how he would remove the problem in a monetary way. Now, I am sure that nothing you can say will increase my already strong understanding of the unsatisfactory situation in the country; but I do say that it would be desirable if questioning could be limited to asking for opinions, for what they may be worth, on some specific proposal.

By Mr. McGeer:

Q. I will come to that right now. I want to explain that I am not dealing with one of those glib agitators who says 99 per cent of what I can agree with. What I am putting before you is a statement made by the head of the federal reserve banking system in the United States to the banking and commerce committee of the Senate, which is a similar body to the one you are addressing now.—A. In which all he is stating so far is that the situation is bad.

Q. No; what I read to you is this: does not the situation described by him in the United States reflect a somewhat similar condition existing in Canada?—A. Yes, it is bad in both places.

Q. Now, he goes on to say:—

> The crucial question therefore is how to make the existing abundant money supply function more effectively. On this question there are two opposite schools of thought. I belong to the school that believes that every possible encouragement should be given to private industry and private enterprise for profitable employment of the great surplus of idle funds, idle men and idle resources which we have in this country to-day.

Do you approve of Mr. Eccles' conclusion?—A. It is a statement, hardly a conclusion, a statement of views with which no one could disagree except those who believe in a different form of government.

Q. That is, anybody who believes in relieving that situation by public expenditure would be those who would be prepared to risk the destruction of democracy; is that right?—A. I think that is something which can be left to everyone's own judgment.

Q. What do you think about it; you are the man that we are depending upon for advice in these matters.—A. I do not think you are depending upon me for advice in regard to interpretation of Mr. Eccles' statement.

Q. On the solution of the problems, as far as monetary factors are concerned. Now, what Mr. Eccles says here is that he believes we should induce private industry to put its money to work, and if they did that there would be no necessity for governmental spending. Now, there is another school of thought which says government spending should take the lead. I am dealing with what we can do in a monetary way——

Mr. Howard: Does he give any suggestions?

By Mr. McGeer:

Q. I am dealing with this thing one at a time. Can you tell me now as to whether or not those who believe in public spending as the means of—— —A. I think the duty of a central bank is to operate in accordance with the laws and practices of the country in which it is located, and not to express opinions in regard to different systems of government or different methods of government procedure.

Q. Or how to finance out of depression? You say it is not your business to advise the government of this Dominion as to how the finance problems of depression could be met and solved?—A. If the government decides that it will

proceed with a certain amount of expenditure it certainly would be our function to give them such advice as we could in regard to how they could manage it.

Q. But as to whether or not they should embark upon a program of public spending, as to whether or not they should increase the amount of currency and credit in circulation, or in issue, you say it is no part of your duty; but the Bank of Canada has constituted you—— —A. I would say that only a bank suffering from delusions of grandeur would embark on something that parliament did not specifically delegate to it.

Q. We will note the delusions of grandeur. However, we will go on. This is what Mr. Eccles says is the alternative to the proposition: he says to the representatives of the people of the United States:—

> However, I believe that when private enterprise is unable or unwilling to do so, government should help to put this idle money . . .

That is, to invest its money to create going-concern activity—

> . . . government should help to put this idle money, some of the ten million of unemployed and idle facilities to work in non-competitive socially and economically desirable public activities, including the building of roads, schools, hospitals, public housing, etc. This, of course, should be done as efficiently as possible and in a way that will stimulate and supplement private activity.

Do you agree with that?—A. I cannot express any opinion on that, Mr. McGeer.

> Q. Expenditures for these purposes for farm benefits and for adequate benefits for the aged will increase the effective demand for the output of industry and thus not only sustain existing investments but provide profitable outlets for investment in new enterprise.

A. Everything that I am able to say in regard to activities of that character is already on the record, not as a specific recommendation of what government should do, of course. I do not believe it is my place to make such a recommendation, but only to set forth as well as we can some of the pros and cons.

Q. He goes on to say:—

> This would increase the national income and the federal revenue and thus ultimately bring about a balanced budget, which we all desire.

Now, he winds up that statement by saying:—

> When our productive capacity is in excess of current demand, as it is to-day, it does not make sense to me to expect that a reduction in the demand originating from government activities is going to lead the makers of agricultural implements, the railroads, the automobile manufacturers, the textile industry, or, for that matter, any other industry, to enlarge plant capacity, increase production and thus furnish employment.
>
> If the buying power of millions of people on W.P.A. rolls or in public construction, or in shipyards and aeroplane factories is reduced, I do not see how we can expect more houses to be built and more capital expenditures to take place.

Now, I want to put this proposition to you. The United States, a neighbouring nation, suffering from problems of economic depression which have continued since 1929 and which are similar to our own, has the head of its banking system recommend to Congress first, that they should do everything they can to induce private industry to move into a development which will result in general expansion of all mining, all private trade, industry and commerce; then, if they are unable or unwilling to do that, which he admits they are, in the United States, and which we know, as a matter of fact, is the situation in Canada, he says the government must undertake a program of social services, a program

of public construction and a program of issuing into circulation the amount of money that will create a demand for goods and services through the increase in the buying power of the consumers generally.

Mr. LANDERYOU: Hear, hear.

Mr. VIEN: Are we not treading on the ground of government policy, and has not the governor of the bank stated time and again that with respect to the financial situation he is the advisor of the government, but with respect to government policy, the government themselves must determine it. What progress can we make in this particular investigation if we simply embark on lines that have just been developed and which have been developed in the course of questions on government policy?

Mr. BAKER: Hear, hear.

Mr. LANDERYOU: I believe that Mr. Towers himself in his radio address pointed out that the policy of a central bank is to issue money in terms of the economic needs of Canada. Now, surely they must issue that along some lines of policy?

Mr. TOWERS: The financial needs will vary, of course, in accordance with governmental or private activity and with the volume of production in the country. In each country, I suppose, the central bank people must determine what their proper course is in respect to things which they may say or do. In this country I believe, rightly or wrongly, that while we may and should act, as advisors, when so requested by the government, it would be quite improper for us to say in the country or even in a parliamentary committee, what the policy of government should be. While it is not perhaps quite proper for me to speak of what the view of parliament might be, I should think that it is a thing which would be resented by parliament.

By Mr. Landeryou:

Q. You say that parliament is solely responsible for the financial policies pursued in the Dominion of Canada?—A. I say that parliament is responsible for the exercise of governmental powers, and for deciding on what they shall or shall not do. In the event of their deciding a certain thing, which has financial implications, they may ask advice in regard to how best to deal with the resultant problem, but certainly I think it is far from our function to tell parliament what it should or should not do.

Mr. MCGEER: I should like to deal, if I may, with Colonel Vien's objection, because I think he is entirely wrong.

Mr JAQUES: Mr. Chairman, I want to make one remark. Knowing that the nature of the financial reforms or any financial proposition we bring up in the house of commons is met with the remark of the Minister of Finance that the inexorable laws of finance come into the picture——

Mr. TOWERS: Excuse me, Mr. Jaques.

Mr. JAQUES: We are told here it is due to the policy of the government. Where are we to find it? I cannot get an answer. If we are wrong in the house of commons and we are wrong here, where are we going to get the information?

Mr. TOWERS: Mr. Jaques, I said that at an earlier meeting of this committee the question was raised, why would it not be possible for government to finance all its expenditure by obtaining additional issues of credit from the central bank? Perhaps not only financing its current expenditures but also paying off its bonds. Now, *there* is a specific proposition. We have expressed our views on that proposition; but I do not feel that I should express opinions on an entirely different one which is, why should not the government spend more on this or that? That is a question of government policy.

Mr. JAQUES: I realize Mr. Towers' position. But I should like to know now if we are going to make any real progress, where are we going to get the answers from?

Mr. HOWARD: When Mr. McGeer gets through I should like to have a minute to discuss that very question.

Mr. MCGEER: I am going to deal with the objection raised by Colonel Vien to my examination. The Bank of Canada was enacted following an investigation by the MacMillian committee, or the Bank of Canada legislation was enacted following that report.

Mr. TOWERS: Yes.

By Mr. McGeer:

Q. And the Bank of Canada came into being as a result of the acceptance of those recommendations. This is the recommendation of the MacMillan committee filed in 1934. That is correct, is it not?—A. Yes.

Q. Now, among the reasons given for the establishment of the Bank of Canada were these:—

> If we survey the cardinal monetary problems which face the Canadian people in common with all other peoples to-day, we are immediately confronted with a multitude of difficult and intricate questions.

And then it enumerates them.

> To what extent and through what organizations should the volume of credit and of currency be regulated?

That surely deals with not only the institutions through which it goes, but the amount that is going to be put out, does it not?—A. No doubt.

> Q. On what body should lie the primary responsibility for maintaining the external stability of the country's currency? To what institution may the government of the day most suitably turn for informed and impartial advice on matters of financial policy?

A. Advice on matters of financial policy.

Q. What we are dealing with here to-day is financial policy. In other words, shall we have a financial policy that depends upon private expenditures or shall we have a policy of public spending?

Mr. VIEN: In answer to that, Mr. Chairman, I would point out that my objection was taken when my friend Mr. McGeer was reading a statement made in Congress by Marriner Eccles defending the W.P.A. which is part of the new deal. If we decide to establish the new deal in this country, it is certainly a government policy. Once the new deal is established it will be for the financial advisors of the government to determine the financial ways and means of coping with the situation created by the new deal; therefore I suggest when Mr. McGeer puts to the governor of the bank a question drawing a parallel between the situation in Canada and the situation arising in the United States as a result of the operation of the W.P.A., I say he is embarking not on the financial ways and means to meet the situation which will arise if and when the government has adopted such a policy, but with the policy itself.

Mr. BAKER: Yes.

Mr. VIEN: Therefore I suggest, with due respect and due regard for Mr. McGeer's ability, and I have followed with a great deal of interest, and much admiration for his ability, his development of a lot of subjects and all gratitude for the information that he has put on this record, and of which we shall all make abundant use. On the other hand, we have to make some progress.

[Mr. Graham Ford Towers.]

I am not suggesting that Mr. McGeer hampered our progress, far from it; but trying to co-operate with the chairman and members of this committee I would suggest that we should draw the line, as Mr. Towers has so eminently and aptly stated. He said, when I am asked to advise the goverment how they can best seek their financial requirements I am in my sphere of proper activity. When you touch the question of government policy, should the government do this, or do that, or do the other thing, it is a question for parliament to decide. We have covered that ground twenty times from the beginning. I am simply respectfully suggesting to you, Mr. Chairman, that we should draw the line somewhere, as the governor has pointed out time and again, between government policy and financial ways and means.

Mr. Jaques: Mr. Chairman, we should try the line of German inflation. It seems to me this is a case of irresistible force meeting an immovable mass.

Mr. Howard: No.

Mr. Jaques: As I said before, I think we should try the line then of German inflation. That is government policy. It is a case of an irresistible force meeting an immovable mass; it is a stalemate. Whatever we propose is said to be impossible by the laws of finance, and when we put it up to the governor on the laws of finance, we are told it is government policy.

Mr. McGeer: Mr. Chairman, this parliament has been sitting for four years. This parliament is supporting a government that was elected upon the promise to establish a new monetary system under which currency and credit were to be issued in terms of public need to serve the social, economic and industrial needs of the people of the Dominion of Canada, and not in terms of private gain. We were to achieve that great accomplishment for the Canadian people through the medium of a Bank of Canada that would be manned by men who are competent to advise the government on fiscal policy. Let me quote again from this report, and when gentlemen say that I am not within the proper bounds of examination of the witness, I am not speaking out of the book, I am speaking from the very record upon which this great reform was based.

On page 63 is a quotation, and I should like to read it. It is from the Canadian Macmillan report. It puts the full responsibility for advising on whether there shall be public spending or not upon the governor of the Bank of Canada. It says:—

> It is manifest, however, that the regulation of the volume of credit is an important factor in influencing the level of economic activity, and therefore of prices and this is one of the cardinal tasks of a central bank.

Mr. Vien: We are not denying that.

Mr. McGeer: Just a moment. I allowed you to interfere twice—

Mr. Vien: Mr. Chairman, I do not know that any criticism of my interference can be directed to me by Mr. McGeer.

Mr. Baker: I object to the word "interference."

Mr. Vien: Because I did not interfere. In the first place, I have not abused the time of the committee since the inception of our sittings. I believed that I had touched a matter of great importance with respect to the expedition of the committee's business.

Mr. McGeer: I thought the hon. gentleman raised an objection, and I started to reply to it. He interrupted before I had completed my reply. I started to make a reply again and I found a similar interruption coming. I feel that if the hon. gentleman will listen to me he possibly may agree with me. Now, with regard to the suggestion that I have abused the privilege of the committee members of this house—

Mr. Vien: I never said that.

Mr. McGeer: I appeared here before the committee on banking and commerce in 1934 recommending the establishment of a nationally owned public bank.

Mr. Vien: I should like to correct a statement of fact. I never said to the committee that Mr. McGeer had abused the time of the committee. I simply tried to make a point of objection with respect to the line of questions and investigations that he had carried on. I never said that he had abused—

Mr. McGeer: Then I am very glad that I misinterpreted you there.

Mr. Cleaver: I think Mr. McGeer should be allowed to answer Colonel Vien's objection.

Mr. Vien: May I say in that respect we have always the privilege of correcting what we consider a wrong statement of fact. Mr. McGeer said that he thought I said that he had abused the time of the committee. I never made any such suggestion. I simply drew the attention of the chairman to the line of questions.

Mr. McGeer: Well, I am very glad to accept that.

Mr. Tucker: By these objections members can prevent any coherent explanation being made at any time.

Mr. McGeer: Mr. Chairman, I want to carry through here with the Macmillan report the Act upon which the Bank of Canada was formed; it carries as its preamble this statement:—

> Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore . . .

We enacted this law. Now, what I am putting to you is this, the straight proposition made by Marriner Eccles as head of the federal reserve system, in which he makes this proposition: when private industry and private capital possessed of abundant financial resources either cannot or will not invest to increase employment, then the government must resort to a policy of public investment in social services and general public works to stimulate internal activity.

Mr. Baker: That is a question of government policy.

By Mr. McGeer:

Q. What I want to ask Mr. Towers is this: do conditions similar to those enunciated by Mr. Eccles as existing in the United States obtain in the Dominion of Canada to-day?—A. In the Macmillan committee report to which you referred a few minutes ago there is a statement which, speaking from memory, runs something like this: To whom can the government of the day turn for advice on matters of financial policy? I think that statement and the implications of it are perfectly all right. It did not say: To whom can the government of the day turn for determination of their financial policy? The questions which you raise, and which were one of the subjects of Mr. Eccles' remarks, are specifically questions of government policy. I do not feel that it is right or proper for me to say what I think government policy should be.

Q. Let me put this question to you: do you think that the conditions that obtain in Canada now are somewhat similar to the conditions that obtain in the United States?—A. If it is sought to draw from that analogy any comment on Mr. Eccles' remarks, I cannot make it. As we have already said on various

[Mr. Graham Ford Towers.]

occasions, the conditions in both countries are unsatisfactory; whether the reasons are the same or not we did not say, but we agreed that they were both unsatisfactory.

Q. We can agree, I think, that there is widespread unemployment in both countries?—A. Undoubtedly.

Q. We can agree that there is an abundance of idle money in both countries?—A. Yes.

Q. We can agree that in the possession of private corporations and private individuals there is an abundance of idle money?—A. Yes.

Q. And we can agree that in both countries private capital and industry either will not or cannot make the investment necessary to relieve the unemployment situation. I think we can agree on that fact, can we not?—A. I think it would be more profitable, of course, if we could understand something that is difficult to understand. It is this: why this lack of opportunity?

Q. Well, if we can agree on the fact that they either cannot or will not, we will have a start. We have had the depression with us now for nine long years, and the unemployment figures, the increasing debt figures and the general situation of stagnation in expansion is most disturbing, at least, is it not?—A. Yes, it is.

Q. What Mr. Eccles says, as head of the federal reserve banking system is this: he believes that if the government will launch a program of expenditure on social services and on public works, that money will be put in circulation, increasing the buying power and inducing private enterprise to commence and re-establish its own activities. Do you agree with that?—A. That is a question of governmental policy, and I really cannot express a view on it. We know the spending campaign in the United States has been on an enormous scale; we know that in so far as the Canadian governments are concerned, their expenditures have been such and such a figure; these are available in the public accounts. We know that during the course of the last ten years tremendous deficits have been incurred, no doubt with the ideas in mind which Mr. Eccles mentioned. Now, for me to go further and say that the expenditures should be such and such, and on such and such objectives next year or the year after, is a hurdle which I do not feel I can take.

Q. I am not going to ask you to do that. I would say that if the government can find some useful practical field of investment that will improve the wealth of Canada and the consumers' buying power in Canada, would it not be advisable for a government to follow that course?—A. That is, to my mind, almost too simple a question, but one which I can answer very readily in a few words. Would we not all agree that it is desirable that government should do things which would be of general benefit to the country and increase its employment, and thereby be of advantage to the country as a whole? We can all agree with that.

Q. Now, you are acquainted with Mr. Beaudry Leman?—A. Yes.

Q. He was a member of the Macmillan Canadian committee.—A. Yes.

Q. You are conversant with the report which he filed as an addendum to the general report? Do you recall his stating these things: they are to be found on page 96 of the report, section 4. He says:—

> Sufficient stress has not been laid upon the factors of national recovery, far more dependable and permanent than the temporary advantages of export trade of raw materials or foodstuffs. Outside markets for our surplus specialized production of certain commodities should unquestionably be sought, but it should always be borne in mind that world markets are unreliable and a source of constantly recurring disappointment. Rightly or wrongly, but as a matter of fact, the countries of the world are economically becoming more and more nationalistic. Are we to await the belated results of international conferences between bankers, that may or may not, in the near or remote future, restore international exchanges and trade, or shall we endeavour to

build up as rapidly and as soundly as possible our own domestic market? Paragraphs Nos. 243 and 244 should be read and studied in the light of the effect that world prices have had on the value of field crops.

A. I should be glad if the committee called Mr. Leman before it and asked for the specific thoughts underlying these generalities.

Q. Measures calculated to develop intra-imperial co-operation or imperial monetary co-operation, as set forth in paragraph No. 211, should not be developed beyond the scope of providing ample facilities for the interchange of goods and services, unless the people of Canada understand and decide, in full knowledge of the consequences, that close monetary co-operation may lead to close economic association, which in turn is a step towards common political action.

The criticism will doubtless be offered that the foregoing observations are limited to reservations of a negative nature and do not contain suggestions of a constructive character. It should, however, be borne in mind that the government of Canada sought recommendations from a group of men, formed into a commission, and not from its individual members.

With this qualification Mr. Leman goes this far, does he not, and declares that Canada cannot wisely depend upon international trade, and that it should not depend upon intra-imperial trade, and recommends a course of internal development?—A. At one stage of the remarks it could be said he recommends economic nationalism in Canada; at another stage he recognizes the importance of foreign trade. Where the balance lies it is impossible to say from reading these remarks.

Q. But in any event, what he does say is this, that the important thing for Canada to do is to increase its domestic market?—A. Ah, that is splendid, but he does not say how.

Q. That is one of the jobs that we have before us.—A. Yes.

Q. Would you agree with this proposition: suppose that Canada launched on a program of expenditure for national defence, do you think that would improve the domestic market in Canada?—A. On balance?

Q. In any way?—A. I would say that the thing would operate somewhat along these lines, that in an endeavour of that kind—I withdraw that, because it is not a subject on which one should speak extemporaneously, or at least I am not capable of doing so. I would sooner point to one of the memoranda that we put on record that deals with that as capably as we can. If I attempted to paraphrase I would simply confuse the committee.

Q. I should like you to check these figures. I worked them out, and I worked them out from information supplied me by the Bureau of Statistics. I would say that to-day, measuring our comparative factors between this nation and the United Kingdom, that is taking our comparative position of population, of national debt, of national income, of accumulated bank deposits and money wealth, and resources of wealth, of past expenditures, of advances, of value of assets within the nation, of volume of international trade, if we in Canada were spending on defence, measured in terms of those comparisons, on the same basis that the United Kingdom is spending, instead of spending $63,000,000 this year, we would be spending more than $500,000,000. The proposition that I am putting to you is this: if we launched on an adequate program of defence as determined by the defence policy of the United Kingdom, the expenditures involved would increase employment in the domestic market in Canada. Do you agree with that?—A. I have put everything I can think of on that subject in a memorandum.

Q. You will get it from the record?—A. Yes.

Q. At the moment I want to draw your attention to the statement made by the Minister of Finance in his budget speech referring to how Canada's trade might be improved. You will find it in Hansard of April 25 at page 3398, and he says this:—

> Fortunately, also, business prospects for both the United States and the United Kingdom for the current fiscal year are such as to justify high hopes for a substantial expansion in the sale of our export commodities to these two great markets. Business in Great Britain has been improving in recent months and under the revitalized re-armament program it should continue to improve because that country still has unemployed resources available for expansion.

Now, in your memorandum which you will prepare— —A. Which we have prepared.

Q. Well then, when?—A. It is on the record.

Q. If the Minister of Finance in his position as adviser on our budget situation can tell us that the vast re-armament program is going to increase and improve business conditions in the United Kingdom why will such a program not produce the same result for Canada?—A. Is that a question, Mr. McGeer?

Q. Yes.—A. I can only refer you back to the memoranda which I have already placed on record.

Q. I do not wish you to deal with the political economy of it, I want you to speak as the Governor of the Bank of Canada in relation to the financial situation.—A. I am pointing out that I have already said all I know on that subject, or could usefully say.

Q. If you want to leave it at that it is all right.—A. In other words, the answer to the implication of that question is already on the record. It would take a few minutes to find the various sections of the record where it will be found, but it is there.

Hon. Mr. STEVENS: Would you mind indicating which statement it is in.

Mr. TOWERS: We will find that for you in a moment. As soon as we have found the various parts concerned we will indicate them.

By Mr. McGeer:

Q. While you are looking that up I would like to know your opinion of the effect of a rearmament program on Canada. You are aware, I suppose, in your studies of the resources of this nation that Canada is a producer of the metals required for armament development which while undeveloped make us one of the most self-contained countries of the world?—A. Metals required for armaments—I should imagine so.

Q. That is, we have undeveloped, according to our reports of our department of mines, abundant supplies of iron ore, we have vast resources of copper, and nickel, and zinc and lead, upon which we as yet have not built a metal industry. We have the means of setting up a metal industry that would permit us to take from our mineral resources all the metals that would go into armaments, ships, and all that is required; the only thing we lack is the place for men to go to work; building Canadian metals into Canadian tools of trade and Canadian instruments of defence. Are we not as the result of our mineral wealth in a much better position to develop a metal industry that will produce tools and machines of peace and defence than is Great Britain?

Mr. LANDERYOU: Hear, hear.

Mr. TOWERS: Is it suggested that the reasons why there are not these industries in Canada are monetary reasons?

Mr. LANDERYOU: Yes.

By Mr. McGeer:

Q. Now, just a moment; I was arguing another question, and I was asking you that if we launched on a program of public expense on defence would we not expect to have an improvement in the domestic market and the employment situation in the Dominion of Canada?—A. I beg your pardon, Mr. McGeer, I was trying to find these memoranda.

Q. Yes. I said, if we launched on a program of developing armaments for Canadian defence would we not improve the domestic markets in Canada and the employment situation?—A. The possibilities and the limitations of activities of that kind have already been, so far as I am capable of dealing with them, dealt with in the various sections of the record of which I shall have the page numbers for you in due course.

Q. You did not deal specifically with the statement of the Minister of Finance that such a program would result in improved employment and business conditions in Great Britain; and the thing I pointed out was this, that because of our numerous mineral resources in Canada we are in a better position to take advantage of the opportunity which exists through present day demands for defensive instruments than is Great Britain. Therefore, my proposition to you is, that if it were right for the Minister of Finance to say it was good for Great Britain, then it must be much more right to say that it would be even better for the Dominion of Canada; do you disagree with that?—A. The possibilities in that connection and the limitations which Canada faces have been dealt with so far as I am capable of dealing with them in this memorandum.

Q. Very well. That is your answer to that. Then, I want to deal with another problem. You are aware of the various factors in international trade, are you not?—A. I hope so, in a general way.

Q. One of the most important items in our international trade picture to-day is a favourable return on balance from the tourist trade; is that right?—A. Yes.

Q. You are aware that this country happens to lie along side of the United States which possesses the largest population of equipped motor tourists of any nation in the world?—A. Yes.

Q. You are aware that the 130,000,000 people in the United States have roughly 30,000,000 automobiles?—A. Yes.

Q. That as compared with a similar population in number of Germany, France and England, that they have five times the automobiles that are possessed in those three European countries?—A. I do not recall the figures, but I would not be surprised.

Q. You are also aware that we receive and have received for the last number of years an average net return on tourist trade of $150,000,000 in round figures?—A. Yes.

Q. Do you know of any form of international trade that is more valuable than the tourist trade?—A. No.

Q. It is a trade that brings the consumer of your goods with his foreign exchange right to your home where he consumes both goods and services?—A. Yes.

Q. His expenditures of money create new money wealth in the country?—A. We can buy more from abroad.

Q. Buy more from abroad, and in that way we develop more activities at home.—A. Yes.

Q. So that the tourist trade as far as Canada is concerned to-day is our most important and the most valuable item in international trade?—A. There are probably one or two other important items, such as gold.

Q. We don't get as much out of gold?

The Chairman: Is your figure the net figure?

Mr. McGeer: Net, yes.

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The CHAIRMAN: Taking out our expenditures?

Mr. McGEER: Yes, the $150,000,000 is the net figure, Mr. Chairman. I said that I cut the estimate down to a figure that I know is safe.

By Mr. McGeer:

Q. There was a survey made by the Royal Bank of Canada in which the economics department of the Royal Bank of Canada went into our department statistics and made a very close examination of the compiling of information and they gave their approval to it. That is a very interesting survey and it is contained in the November, 1938, letter of the Royal Bank of Canada. I agree with my friend when he says that we could not say definitely from these estimates the discrete amount of our profits, but we do know from the statistics and the information that it is enormously valuable. What I want to get at, Mr. Towers, is this: if we could invest money in Canada which would increase our tourist trade would not we be successful in putting people to work creating real assets in the Dominion of Canada that would result not only in the improved internal conditions but an actual improvement in the international trade position?—A. Yes.

Q. Now, I put this figure to you: there are certain men in Canada who make a study of this trade and one distinguished leader of transportation said to me, I do not see why with proper development we should not increase our tourist trade to $500,000,000 a year; and he added the remark that the increase of $200,000,000 over and above and beyond the $300,000,000 which is somewhere about the figure of to-day, would pay interest on an investment at 4 per cent of five thousand million dollars. Now, Mr. Towers, what I am putting to you as a practical banker, the head of the Bank of Canada, is this: is there not a field of opportunity for Canadian development there that will do two things, improve our domestic market and improve our international trade?—A. That is the assumption on which we have been going; and, of course, as you will recall, the various provinces and to a certain extent the Dominion government have been basing their activities on that thought.

Q. Do you know how much money the Dominion government has been spending on various highways?—A. I do not recall. I do recall that various provinces have spent a good deal.

Q. You know that the various provinces have now exhausted their power to continue these programs?—A. I do not know that.

Q. I can tell you that in the Province of Ontario they have spent $40,000,000 last year; but the total available expenditure this year will not be more than $6,000,000 and possibly considerably less than that, and that is notwithstanding a necessary increase in gasolene taxes to finance extended obligations. That is the situation in Ontario, and I will tell you more——

Mr. HOWARD: The situation in Quebec is worse.

Mr. McGEER: One of the representatives of the Department of Highway Development in the Province of Ontario stated that to complete the program that they have under way to equip Ontario with tourist highways would take, with their financial resources, some 81 years to finish. Now, what I put to you is this: we have great tourist resources and attractions in Cape Breton, in Nova Scotia, in New Brunswick, in Prince Edward Island, and in the Province of Quebec; in Ontario, in Manitoba, in Saskatchewan, in Alberta and in British Columbia.

Mr. LANDERYOU: Hear, hear.

Mr. McGEER: There are innumerable opportunities to build highways to centres of natural wonder and beauty. There is more work crying to be done opening up our tourist attractions with highways, improve our camping grounds,

beautifying country and cities, than there is any possibility of finding either equipment or labour to build in Canada. Would it not in your opinion be good business for the government of the Dominion that has the power to create an issue of money under its laws to bring about a scheme of co-operation between our merchant banks, our Bank of Canada, our Dominion government, our provincial and municipal authorities, to the end that we could finance a real Canadian program of tourist attraction and development?

Some hon. MEMBERS: Hear, hear.

Mr. TOWERS: Your implication there is that quite apart from the desirability of the expenditure, the thing to do is to finance them by increasing the volume of money?

Mr. McGEER: Yes.

Mr. TOWERS: Now, there is on the memorandum on record all the views that I could express in regard to that question of financing government expenditures by the issue of currency.

Mr. McGEER: Yes.

Mr. TOWERS: It can, of course, be remembered that that is not the only way of financing government expenditures in excess of revenues. It is possible for Government to take over the savings of the people for these purposes, and that is in fact in a measure the way in which they have been borrowing money. I can express opinions as to the probable result of financing by the issue of currency—

Mr. McGEER: I did not say by an issue of currency.

Mr. TOWERS: Well, by the issue of credit then.

Mr. McGEER: No. I said, by bringing into co-operative agreement the merchant banks, the Bank of Canada, the government of Canada, and the provincial authorities.

Mr. TOWERS: Well, I do not know what that means. I assume that questions directed to me must have something to do with the financial end of it.

Mr. McGEER: I don't want you to say that I suggested it could be done by the issue of currency, which I did not say; because I am quite aware of the implication that comes from that, that under our present law that would mean an issue of Bank of Canada bills which would result in an inflationary condition in bank deposits. But what I am saying to you is that under our existing system we can by our merchant banks agreeing to discount governmental securities at a rate of interest to be agreed upon between the government, the Bank of Canada and the merchant banks, which would in the terms of the empire monetary committee's report, be as low as possible; and I am suggesting to you that with that opportunity we have before us would it not be advisable to inaugurate through these channels the investment of national credit and provincial credit and municipal credit that would result in improving employment in Canada and general conditions throughout the Dominion of Canada and our international trade balance as well.

Mr. TOWERS: The same thing could be accomplished by borrowing the savings of the people.

Mr. McGEER: Very well then, we come back to Marriner Eccles' proposition, that if the public cannot or will not make it possible to have that investment then should the government not undertake a lead and bring it about through governmental financial policy.

Mr. TOWERS: I do not think that was Marriner Eccles' proposition. That is a different story. He was saying that if private capital does not embark on capital development then the government should jump into the picture and greatly increase its expenditures. He did not go on to show how he thought the government should finance this increased expenditure. He did not say

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whether he thought it should be through the expansion of currency and credit in the country or whether it should be by borrowing private savings. As I said before, I cannot express any opinion on the level of government expenditures.

Mr. McGeer: I take it from reading your reports very carefully—and I did want to go into that with the members of the committee, and I have no doubt other members of the committee want to deal with it in the same way—I understand your memorandum to say this: if governmental expenditure results in the production of either unnecessary or unsaleable products and if at the same time governmental expenditure results in increasing surpluses of existing idle currency and credit and if those expenditures result in increasing the volume of debt to the point of making taxation more burdensome and payment of public debt more impossible, then the result would be the destruction of confidence in the country at large and in the currency value of the nation's medium of exchange, and that in turn will result in a possible flight from the Canadian dollar and a general lack of confidence and courage on the part of private investors and a greater collapse of the economic structure than exists at the present time.

Mr. Towers: I am sorry, Mr. McGeer, I cannot deal with that. Incidentally, if I may have the permission of the committee I would put down at the end of to-day's record the references to the various pages where I think this information may be found.

By Mr. McGeer:

Q. Now we come back to the Marriner Eccles' proposition; if money is idle and it is not going to be employed and the government steps in and puts money to work in new employment, creating new wealth, improving international trade and improving the employment situation, then you would say that would be a safe investment for national credit?—A. Yes, it is easy to determine the principle, but sometimes hard to apply it.

Q. Yes. Then what we as parliamentarians have to do in this matter, both for armament expenditures and tourist trade expenditures, is to determine whether or not the employment which would be thereby provided, the investment that there would be developed, and the consumers buying power that there would be created, would be a result that would not come unless the government took that action, or a better result than any that would result from any other action?—A. I take it that so far as armament expenditures are concerned, it is never contended that more productive things could not be done. Therefore armament expenditures should be determined by the government presumably in the interests of defence—which, of course, is quite beyond me.

Q. Of course, you will agree with Mr. Dunning's statement that "business in Great Britain has been improving in recent months and under the revitalized re-armament program it should continue to improve"?—A. He did not suggest that Great Britain could not have done something else which might have been better.

Q. I think we are all agreed that in the light of world conditions at the present time democracy has to be reasonably well armed for the next ten or twenty-five years at least?—A. I am specifically not expressing an opinion on that.

Mr. Cleaver: I have two short questions which I would like to put on the record. I do not expect answers to them to-day, but before this committee concludes its work I would like to have an answer to them. My first question is: In view of present day actual conditions do you not think that in order to employ present idle labour the government of Canada should enter the field of the employment of labour by the construction of non-revenue-producing public works of such a nature as would not be in competition with private enterprise? And my second question is: How in your opinion could this work best be financed?

The CHAIRMAN: What is your pleasure as to adjournment, more particularly with respect to our next meeting? The Governor (Mr. Towers) just informs me that he has a very heavy afternoon's work.

Mr. McGEER: I would like to take advantage of this opportunity to place two questions on the record to which I would like to have answers at the next sitting of our committee, or as early as may be convenient. My questions are:—

1. What powers were vested in
   - (*a*) the banks
   - (*b*) the Minister of Finance, and
   - (*c*) the Governor in Council,

   and have been transferred to the Bank of Canada?

2. What powers were conferred by legislation or order-in-council to the Bank of Canada and were not previously vested in
   - (*a*) the banks
   - (*b*) the Minister of Finance, and
   - (*c*) the Governor in Council.

Ask for *separate* answers for (*a*) (*b*) (*c*) in *each* question.

Mr. TOWERS: Of course, I have to reply to those by saying that they are legal matters which I think should be referred to the law officers of the crown.

Mr. McGEER: I understand that your reply is that the Bank of Canada not having a legal department—

Mr. TOWERS: That is not my reply.

Mr. McGEER: —not having a legal department, and having its legal work done by the Department of Justice—

Mr. TOWERS: No, my reply is, that they are legal matters relating to the powers of the government and of the Governor in Council prior to the establishment of the Bank of Canada, and as such I do not think that we are the appropriate people to make those replies.

Mr. TUCKER: Do I understand that you will be able to deal with the questions asked by Mr. Donnelly at our meeting tomorrow morning?

Mr. TOWERS: Yes.

The committee adjourned at 1:05 o'clock p.m. to meet again to-morrow, May 4th, 1939, at 11 o'clock a.m.

APPENDIX "A"

INFORMATION SUBMITTED BY MR. TOWERS AT THE REQUEST OF MEMBERS OF THE COMMITTEE

Requested by Mr. Moore

United Kingdom Gold Reserves 1931 and 1938*
(fine ounces)

Dec. 31/31	March 31/38	Sept. 30/38
28,000,000	119,000,000	99,000,000

* Gold held by Bank of England and Exchange Equalization Account.

Requested by Mr. McGeer

INTEREST BEARING OR SAVINGS DEPOSITS OF CERTAIN AUSTRALIAN BANKS
(Million of £A.)

	1934	1935	1936	1937	1938
Trading Banks—					
Deposits bearing interest (Dec. quarter)	189.0	178.8	179.8	192.1	197.7
Commonwealth Savings Bank—					
Depositors' balances and interest (Dec. 31)	127.3	132.5	134.8	140.4	146.8
Commonwealth Bank—					
Deposits bearing interest* (ex. Govt.) (Dec. quarter)	28.3	24.1	26.2	....	....

* Other than Government; includes deposits of savings banks and quasi-govt. bodies

INTEREST RATES ON INTEREST BEARING OR SAVINGS DEPOSITS IN AUSTRALIA

	December, 1938
Trading Banks—	
Three months	2.00%
Six months	2.50%
Twelve months	2.75%
Two years	3.00%
Commonwealth Savings Bank—	
Up to £500	2.00%
£501 to £1,300	1.75%
Commonwealth Bank—	
Three months	2.00%
Six months	2.50%
Twelve months	2.75%
Two years	3.00%

UNITED KINGDOM POST OFFICE SAVINGS BANKS
(Millions of £ Sterling)

	1934	1935	1936	1937	1938
Depositors' balances	354.8	390.3	432.4	470.5	508.8 (Nov.)

Current interest rate 2.50%

Requested by Mr. Lawson

CANADIAN POST OFFICE SAVINGS BANK DEPOSITS
(Millions of Dollars)

	March 31				
	1935	1936	1937	1938	1939
Depositors' balances	22.5	22.0	21.9	22.6	23.1

Current interest rate 2.00%

REQUESTED BY MR. VIEN

ONTARIO SAVINGS OFFICES

(Millions of Dollars)

	1935	1936	1937	1938
Liabilities—				
Depositors' balances	22.3	32.0	37.7	40.3
Reserve	0.3	0.3	0.3	0.3
	22.6	32.3	38.0	40.6
Assets—				
Funds on deposit with Ontario Government*	21.9	31.3	36.9	39.4
Cash on hand and in banks	0.7	1.0	1.0	1.2
Accounts receivable	....	....	....	....
Office furniture and equipment	0.1	0.1	0.1	0.1
	22.6	32.3	38.0	40.6

Current Public Deposit Interest Rate

Under $10,000	1.50%
Over $10,000	1.00%

* Chiefly invested in debentures of the Agricultural Development Board.

APPENDIX "B"

REFERENCES

The following pages of the printed record are indicated by Mr. Towers for reference with respect to information requested from him during the course of this day's proceedings, viz.: Pages 64, 88, 148-151, 202.

SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 12

FRIDAY, MAY 5, 1939

WITNESS:

Mr Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

FRIDAY, MAY 5, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark *(York-Sunbury)*, Cleaver, Deachman, Donnelly, Dubuc, Fontaine, Hill, Jaques, Kinley, Kirk, Lacroix *(Beauce)*, Landeryou, Leduc, Macdonald *(Brantford City)*, McGeer, Mayhew, Moore, Plaxton, Ross *(St. Paul's)*, Stevens, Taylor *(Nanaimo)*, Tucker, Vien, Woodsworth.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

After considering private bills, the Committee resumed its consideration of The Report of the Bank of Canada.

In answer to questions asked on April 28 by Mr. Donnelly, Mr. Towers read a statement on various activities of the Bank of Canada. He also submitted the following statements:

(*a*) Estimate of new costs attributable to formation of Bank of Canada for year 1938 (See Appendix "A");

(*b*) Statement showing division of cost between functions previously performed by the Government, and new functions based on Bank's profit and loss for 1938 (See Appendix "B");

(*c*) Estimate of effect on Dominion Government costs arising from formation of Bank of Canada (See Appendix "C").

Examination of Mr. Towers was continued.

At 1.05 p.m., the Committee adjourned until 4 o'clock.

AFTERNOON SITTING

Members present: Messrs. Baker, Clark *(York-Sunbury)*, Cleaver, Deachman, Donnelly, Dubuc, Fontaine, Hushion, Jaques, Kinley, Lacroix, *(Beauce)*, Macdonald *(Brantford City)*, McGeer, Moore, Ross *(St. Paul's)*, Stevens, Taylor *(Nanaimo)*, Vien.

Mr. Towers filed correspondence exchanged between himself and Mr. C. S. Walters, Controller of Finance for the Province of Ontario, regarding the purchase of Treasury Bills (See Appendix "D").

Examination of Mr. Towers was continued until 6.05 p.m. when the Committee adjourned until to-morrow, Saturday, at 11 o'clock a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

FRIDAY, May 5, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

The CHAIRMAN: Gentlemen, the governor of the bank has some answers to questions asked by Mr. Donnelly.

Mr. TOWERS: Mr. Chairman and gentlemen, when Mr. Donnelly put certain questions last Friday he pointed out that all parties in the house had been in favour of a central bank, and I have no doubt he would agree that at the time of formation of the bank there was a widespread national interest in the new institution. I think we could say that there was public interest of the best kind. Dr. Donnelly went on to say that as a public man he was continually being asked throughout the country what the central bank did and how it justified its existence, and that he was at sea so far as an answer to those questions was concerned.

I know from experience that there is a great deal in what he said; in fact, I know the absolute correctitude of what he said, and we fully realize the desirability of public understanding of the bank's purposes and functions. However, the committee will understand, I think, that it is by no means easy to get the desired results. For example, I do not think it would be right for us to embark on an advertising campaign. A great deal of speech-making would take too much time from other work, and in any event, that kind of thing is easily overdone. What we have done has been limited to some explanatory speeches in various parts of the country, some radio addresses, and the publication of information in our annual reports. First of all these reports were addressed to the shareholders; and last year for the first time the report was addressed to the minister of finance. May I say that in relation to the subject I have been discussing, I think the meetings of this committee, and the record of these meetings are of great importance. The attitude of members of parliament towards the central bank—perhaps I might say the atmosphere in which the bank's affairs are discussed—is likely to be one of the major factors determining its standing and prestige in the country. I think the bank need have no hesitation in asking for the whole-hearted support of public men. Disagreements in regard to its policy may arise; but I hope that such disagreements will never take a form which will damage this public institution which parliament has created to serve the national interest. I believe that a good central bank is an asset to any country. But there is certainly no room for doubt that a poorly operated central bank, or one which is constantly the centre of strife, is a public liability of the worst kind.

The primary function of a central bank is the control of commercial banks' cash reserves, and the most important change introduced by the establishment of the Bank of Canada was the transfer of control over those cash reserves which are the major factor in determining banking policy—a point which I think I need not labour after the discussions which have taken place in this committee.

Prior to March 11, 1935, the date on which we opened our doors for business, the dominion government, through the Department of Finance, was responsible for the issue of legal-tender dominion notes which constituted the major portion of the cash reserves of the banking system, and in addition supplied the requirements of the public for currency of $1 and $2 denominations and, to a negligible extent, other denominations. The chartered banks also held some legal tender cash reserves in the form of gold, but when Canada was off the gold standard—and we have been off the gold standard some twenty-one years during the last quarter of a century—the banks had no practical means of varying the size of their gold holdings. Variations in the amount of their cash reserves, therefore, chiefly depended on changes in the amount of dominion notes in their possession.

The Dominion Notes Act provided for a certain fiduciary issue—i.e., unbacked by specie; a limited issue on the basis of a stated percentage of gold backing; and further issues secured by gold, dollar for dollar. For a number of years prior to 1934 the Dominion note issue was consistently at or very near the maximum limit provided under the Dominion Notes Act. Under those circumstances, the government had practically no power to vary the amount of dominion note issues of its own volition, except by asking parliament to change the legislation. In other words, it had practically no power to vary the cash reserves of the chartered banks or to prevent an undesirable contraction in those reserves if the public's holdings of notes increased.

We were then tied up in one of the most rigid monetary systems of the world, except for one factor—the Finance Act. Under the provisions of this Act the banks could borrow dominion notes from the government and increase their cash reserves. Dominion notes issued under the terms of the Finance Act were not required to have any specific gold reserve backing.

From the point of view of the country as a whole there were three major disadvantages in relying upon the Finance Act to impart the necessary flexibility to the monetary system:—

(1) Finance Act borrowings were never intended to be of a permanent or even semi-permanent character; and if a general improvement in business caused a demand for more cash—a demand which might persist for some time or even be of a permanent character—the Finance Act was not the proper source of supply. I find an example of such a demand in the record of the last few years. Between February, 1935, and December, 1938, the total active note circulation in Canada increased $53 millions. If the major portion of that demand had had to be met by the use of dominion notes—as it would have under the old system—we would have had a banking situation of an extremely deflationary character, or, alternatively, have found that banks were almost permanently indebted to the dominion government. My guess is that the actual position would have been somewhere between these two extremes. But I have no hesitation in saying that the position would have been an extremely unsatisfactory one for the country.

(2) The second great flaw was this: If it seemed desirable to encourage expansion there was no way for the government to take the initiative. It is true that an exception to this rule is found in Mr. Bennett's action in November of 1932 when he persuaded the banks to borrow $35 millions under the Finance Act. No more satisfactory way of accomplishing his purpose was open to him at that time. But the very fact that such a transaction had to take place in that form made it obvious that a central bank must be organized in Canada.

(3) Apart from the fact that no public authority could take the initiative in promoting expansion, there were other features of the system which were not satisfactory. The banks did not adopt any concerted policy in respect to Finance Act borrowings. It was not their place to do so. And there seems

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to have been some question as to the degree of supervision which the government exercised over loans under the Finance Act. I am not raising any question of safety of such loans, but I have in mind the general effect which the sum total of borrowings would produce on the banking system. Who was responsible for seeing that expansion did not go too far; that checks were applied if necessary; and what evidence is there that anyone exercised supervision of this character related to general banking policy? I do not know the answer to that question, and I doubt if anyone does.

I summarize my answer to the first part of Dr. Donnelly's question by saying that under the old system no one authority was responsible for the monetary policy of this country; and if anyone had been responsible the inflexibility of the existing machinery would have tied the hands of that authority. The present system places responsibility on the central bank and provides for great flexibility.

In speaking of the duties which are performed by the central bank which were previously performed by the government, I should add that we have not only taken over the operations of the currency section of the Department of Finance, but since March 31st, 1938, are acting as agent for the government of Canada in the payment of interest and principal and generally in respect to the management of the public debt of Canada. This latter function had been performed by the loans and interest branch of the Department of Finance, the staff of which joined the service of the Bank of Canada a little over a year ago.

Turning to the second part of the question, that is, what work the central bank does now that the chartered banks did formerly, I should point out that, broadly speaking, the central bank was not set up to do any work that the chartered banks did formerly. It was created for the purposes which I have just been discussing. It is true that the new legislation provided that the chartered banks' note issue rights should gradually be reduced, which meant that the central bank's notes would gradually take the place of the chartered banks' issues. This was a question of policy. It is also true that the central bank now handles the government's business in foreign exchange, and holds part of the government's deposit balances. But these two changes were incidental to the establishment of a central bank, and are not in themselves matters of major importance.

The third part of the question was an enquiry as to what the central bank does now that was not done formerly by the treasury board—perhaps I might say the government—or the chartered banks.

In answering the first part of Dr. Donnelly's question, I have pointed out that the central bank is responsible for monetary policy in a way which was not possible under the old system. This is the change of greatest importance. I shall refer, as briefly as I can, to other new features.

The bank acts as the financial advisor and fiscal agent of the dominion government. Amongst other things it must tender advice to the government in respect to issues of dominion government direct or guaranteed loans, and it handles the mechanical operations connected with such issues. If the advice given to the government is to be good advice, the bank must have close contact with security markets both in Canada and abroad, and must also, I need hardly say, have people on its staff who are capable of appraising and interpreting the information they obtain. We operate a securities department which does in fact maintain touch with markets in Canada every minute of the day.

While I am on the subject of our relations with the dominion, I should add that we are in a position to make loans to the government from time to time, and have done so. The primary function of any central bank is to control the volume of credit (and to some extent of currency) in the country, and it should not be, and is not, regarded simply as a source of supply of the funds required

by a government. Temporary requirements of a government, however, can be supplied, provided the amounts involved are not so large that central bank action would cause disturbances in markets.

While I am on the subject of relations with government I feel I should mention our position in respect to provinces. Our Act says that:—

> The bank shall act as fiscal agent of the government of Canada without charge, and, subject to the provisions of this Act, by agreement may also act as banker or fiscal agent of the government of any province.

It has been, and is, our view that a relationship with a province should be entered into on the understanding that it would be of a continuing character such as would normally be needed for the bank to acquire that full knowledge of a province's position which would enable it to give the province the best service of which it is capable in the matter of expert advice and frank opinions. The permanency of the arrangement, is, of course, a matter of intention at the time it is initiated, and I do not suggest that there should be a binding contract from which neither side could withdraw. Nor would a province be precluded from carrying accounts with or borrowing from its present bankers.

If a relationship of such a character were established, the bank could perform for a provincial government much the same kind of services as it undertakes for the dominion government. I should add that no province has ever requested the Bank of Canada to act for it in this way.

The existence of a central bank—to continue with certain new features—has made it possible to develop a treasury bill market in Canada. One of the advantages of this development has been that the dominion government has been able to borrow on treasury bills at very low rates, but I do not regard this advantage as the most important one. More important is the fact that the chartered banks have in treasury bills a form of liquid second-line cash reserves. Under the old system the banks had to turn to the New York call loan market to find facilities for holding a reserve of this type. Such facilities are now provided at home.

We operate a foreign exchange department which handles the dominion government's exchange business —a large business as you may imagine—and which is able to keep us in close contact with development in exchange markets.

Our research department is constituted to supply us with the best available information on matters related to government finance, private finance, domestic and external trade, and many other things which I need not recite here.

The fact that there is a central bank in Canada makes it possible to achieve co-operation with the central banks in other countries. There is much which can be done in the way of interchange of information. Business conditions in a country's main markets have an important bearing on domestic trade. A central bank which contented itself with a knowledge of home affairs and turned a blind eye to developments elsewhere, would not be fulfilling its duty to its own people. The central banks of other countries constitute an excellent source of information. They can often provide facts rather than surmises. Co-operation along these lines is therefore extremely helpful, and can be developed by arrangement between central banks. Obviously, co-operation on any matter of high policy must be dictated by the views of the governments of the countries concerned.

The last point which I would like to mention concerns central banking activities of a general character. In speaking of this—very briefly—I will not try to define exactly the things in which a central bank might interest itself. One might say either that nothing is the bank's business, or that everything is its business. The bank must try to maintain a reasonable balance in that respect. It should not entertain the thought that it should have a finger in every pie, but it certainly must neglect no opportuniy to make suggestions or give a lead when its knowledge of a situation gives it reason to believe that

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such action would be in the public interest. Its closest connection is likely to be with the financial activities of its market—with the operation of the stock and bond markets as well as with the business of the commercial banks. It is deeply interested in the machinery by which the savings of the people are mobilized and invested. Moreover, it cannot fail to be concerned with the progress and development of industry in general. If the bank has reason to believe that unsound developments are taking place, or unsatisfactory practices are being followed in any important department of the Canadian economy, it must try to find an opportunity to make suggestions which will bring about an improvement. I do not suggest for a moment that the central bank has superhuman intelligence, but a central bank is in a better position to accomplish something than any individual can be. Naturally, successful prosecution of activities of this character depends on experience and the wisdom and prestige which come with it. Ill-considered action, or an attempt to cover too wide a field, are equally fatal.

Further points raised by questions by Dr. Donnelly related to cost of operation and certain other features of the bank's activities, and in particular I think there was a desire to gain some idea as to what one might call the new costs of this relatively new institution. I have here a statement which in due course, with the permission of the committee, I will put on the record, which contains such an estimate, but I would like to add some explanatory remarks as to how it was made up.

First of all, we took the total amount of our operating charges. From that we deducted the costs incurred in operating departments which performed functions previously performed by the government. We know that if there had been no Bank of Canada, these functions would still be performed by the government. We know also that our costs of operation are no higher than they would have been under the old regime. In these various cases, as a matter of fact, we took over the staff from the departments in which they were located. Now, those total charges for the year 1938 were $1,750,000, speaking in round figures. The expenses attributable to functions taken over from the government previously, performed by the currency division of the Department of Finance and assistant receivers general throughout Canada, I have divided into two sections: the first amount, $663,000 represents amounts paid out for the manufacture of bank notes and for their transportation by express or post throughout Canada; the other costs of operation of that department were $365,000. I might explain that that department, in addition to handling all the work of putting out new notes during the course of the year, of making them available at the ten agencies throughout the country, and of redeeming and destroying notes which become unfit for use—in addition to that work the department in question has the custody of our gold stocks, it has the custody of the dominion government bond reserves and securities of other kinds, and is also the department which handles the work of dealing with subsidiary coins.

The second cost I have here is the management of the public debt division. That work which was previously being done by the government we took over last year. That is $191,000, and the total of those two divisions is $1,220,000. Now, from this I arrive at the fact that the expense directly attributable to new departments and the directing executive of the bank, excluding taxes paid to provinces and municipalities is $439,000. Then I take the profits which could only have been obtained from operation of the new organization—let me say that those profits do not include any interest or discount on any of the investments of the bank nor do they include interest on advances which we may have made to chartered banks—they were negligible in any event. They include only profits which could not have been earned under the old form of organization. Such profits for the year 1938 were $243,184.76. I therefore arrive at a cost of new functions of $196,660.84 for the year 1938. In 1936 at the annual

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meeting of shareholders I made an estimate on a similar basis. In that year I figured that the cost of new operations net was about $275,000; but I expressed the hope at that time that as years went on the cost would be reduced. It has been reduced in 1938 to $196,000 odd. I expect it will be further reduced in 1939 and subsequent years.

(Statement appears as Appendix "A")

I have here a second statement, but before proceeding to that, may I take two or three minutes of the committee's time to mention the volume of certain of our operations, to try to give some idea at least of the character of our routine functions, which naturally have a bearing on our cost of operation. Perhaps the most important feature is this: under the old regime and under the Dominion Notes Act the active circulation of dominion notes—that is circulation in the hands of the public—was in 1934 $30,000,000. In 1938 our active circulation was $107,000,000. In other words, there is more than a trebling of the figure of active circulation. Now, that active circulation figure has a very important bearing on the volume of work. Large denomination notes which rest in the hands of the banks require little in the form of transportation; they stay there a long time as they are not being actively used, therefore they do not require to be redeemed frequently and new notes issued.

The active circulation is active from our point of view in every sense of the term. The volume of that work as compared with 1934 has more than trebled. Just as an indication I may say that the number of new notes printed in 1938 was a little over 54,000,000. That is the number of notes, rather than dollar amount. The number of old notes destroyed was 47,000,000. The new subsidiary coin issued by our various agents to the chartered banks, amounted to $1,483,000. In terms of small coins that represents a pretty substantial amount. The smooth and mutilated coins redeemed, including withdrawal of the large 1 cent bronze coin, amounted to 11,888,000 pieces.

The clearing items which we handled totalled 733,000, to a value of something over $1,000,000,000. During 1938 4,300,000 coupons were paid, 330,000 interest checks on dominion government bonds were issued, bonds to a value of $235,000,000, exclusive of treasury bills, were redeemed or converted, and bonds transferred and exchanged to a value of $105,000,000. During the course of these transactions some 40,000 letters of inquiry or instruction were received and answered. I may say in speaking of the operations of our securities department, that we maintain representatives in both Montreal and Toronto for reasons which the committee will naturally understand, a constant minute to minute connection with Ottawa is in effect. Our purchases and sales of bonds in the market during 1938 amounted to about $200,000,000. Our transactions in treasury bills with the market in the same year were about $120,000,000. As regards our exchange department, I can only say there that the turnover runs into a good many hundreds of millions of dollars each year.

The number of our staff is 359, of which about 275 represent staff performing the functions previously performed by the government, and some 84 represent the additions caused by the organization of the Bank of Canada.

I come now to the second statement, which I shall also, with the committee's permission, put on the record. This statement brings in the figures of our total earnings. You will remember that in the earlier statement I referred only to those earnings which were of an absolutely new variety, and I eliminated all interest on investments or interest on advances to chartered banks. The total of those two items, interest on investments and advances to chartered banks—the latter amount being negligible—in 1938 was $4,356,446.64. The expenses attributable to functions taken over from the government in

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accordance with the previous statement that I have put on the record are $1,220,768.47; taxes, $89,908.21; loss on silver bullion, $135,740.18. I put that loss in this particular section of this statement because of the fact that taking over of silver was a duty imposed upon us by the government under the original Bank of Canada Act to carry out the terms of the London silver agreement. Had we not gone into operation the government would have had to do that and I estimate the government naturally would have taken this loss. The total of these items is $1,449,911.39. Taking that from the interest earnings that I have already mentioned there is left an amount of $2,906,535.25. I then deduct the cost of the new functions to which I have already referred, namely $196,660.84 and I find that there is a balance available for depreciation in assets, for reserves, dividends and payments to government totalling $2,709,874.41.

(Statement appears as Appendix "B")

I have now a third and last statement which was made up in response to a question asked by Mr. Tucker in which he referred to the special issue of $115,000,000 in bonds, 3 per cent bonds, which was delivered to us by the government at the time we commenced operations to balance a liability which we had taken over for redemption of the old dominion note issue. I should point out that this statement does not reflect as accurately the change in position as the first one which I put on the record. It necessarily runs back to the situation as it was in 1934 without making allowances for different things that have happened since then. It shows from the point of view of government a more favourable position than the first statement I put on the record. But I should say to the committee I think the first statement really more accurately reflects the situation, and I shall also add that while that first statement involved to a minor extent the making of estimates, the basis upon which it is made will tend to exaggerate the new costs rather than under-estimate them.

But returning to this present statement, the interest on 3 per cent bonds to the amount of something over $115,000,000 issue is approximately $3,450,000. That is the amount which is being paid annually by the government on the bonds.

Now, I deduct the old government costs transferred to Bank of Canada. These are not the figures which I mentioned in the first statement. These figures I am now using are, as well as we have been able to obtain them, the actual costs in the 1934-35 year to government. Those total some $909,000, and I add as well the loss on silver bullion which would have been borne by the government.

By Mr. Taylor:

Q. And which should have been borne by the government?—A. It would have been had the Bank of Canada not been organized, yes. And I find, as you will see in the statement which will be on the record, the gross new costs to government amount to $2,375,455; that is, cost of interest of $3,450,409, less charges which government would have had to bear of $1,000,000 odd, leaving this gross new cost of $2,375,455. I find that the profit of the bank, working on this basis only, for 1938 available for depreciation, payment to government and so forth, which I have previously recited, was $2,410,046. In other words, there was an improvement in the government's position of $34,000 in that year as compared with what it would have been had the Bank of Canada not been organized.

(Statement appears as appendix "C").

I think that that is all I have here in the form of statements. There was a further question raised by Mr. McGeer one or two meetings ago, but if Mr. McGeer has left, as I believe he has, perhaps Mr. Chairman, I had better hold it over until a later time.

By Mr. Deachman:

Q. There are two or three questions I should like to ask. One is in connection with exchange. Does the Bank of Canada act for the government owned properties, as, for instance, the C.N.R., in connection with the purchase of exchange?—A. Yes, I think entirely. I am not absolutely certain but we would, I believe, almost entirely handle it on behalf of the government.

Q. Does your action for the dominion government and the C.N.R. or any other government properties as, for instance, the steamships, enable you to secure exchange at a better price than it would have obtained if they were operating separately?—A. The government, of course, because of the fact that it buys the gold and ships it abroad, has foreign exchange as a result of those shipments. The amount of that is sufficient to supply all the requirements of the government, the national railways and the other organizations that you mention, and still leave the government with exchange to sell.

Q. So you are selling exchange, selling Canadian exchange, Canadian dollars?—A. Or selling U.S. dollars, shall we say.

Q. Yes, exactly. The other question I wanted to ask was in regard to the treasury bills market of which you spoke. Does the bank function in the purchase of provincial treasury bills, or has that market developed to any extend?—A. So far, I think one may say that so far as provincial treasury bills are concerned they are held almost entirely by the chartered banks.

Q. By the chartered banks rather than by the central bank?—A. Yes.

Q. There is one question I want to ask you and it consists of a statement which was published a short time ago. If I can read the statement perhaps it will make the point clear. The statement was made from the evidence that came up before the public accounts committee, and was in the evidence of Mr. Chester Walters, and reported in the Ottawa *Citizen* on the date of April 24th and reads as follows:—

> Mr. Walters told Leopold Macaulay that Governor Graham Towers in May, 1935, told him the Bank of Canada "would never buy Ontario treasury bills except as an open market transaction." at the same time, Mr. Walters declared the central bank was buying the bills of "some of the western provinces," whose credit he did not think was equal to that of Ontario.

Now, that is the lead that is given on the front page and if I turn over on the fourth page of the same day I find this:—

> Mr. Walters was asked why no tenders were called for Ontario treasury bills, although the dominion government does call such tenders. He said there was not such a demand for the provincial treasury notes.

It then goes on to say:—

> In 1935, Graham Towers, Governor of the Bank of Canada came to Toronto and in the presence of Mr. Nixon and Highways Minister T. B. McQuesten agreed to buy Ontario treasury bills. A week later, Mr. Walters said, Mr. Towers told him "the bank of Canada would never buy Ontario treasury bills except as an open market transaction." Witness said he believed the Bank of Canada did buy treasury bills of "some of the western provinces." Asked whether he thought the Bank of Canada should buy the Ontario securities, he said, "I certainly think it should. I don't believe they've supported the province as they should."

Now, what I want to get at in regard to that is, what is the basis of the bank's action in a matter of that kind? Does it buy treasury bills of the provinces, or has it offered to buy treasury bills of any province, or what was its action in regard to this specific matter referred to here?—A. Yes. In so far as Mr. Walters' statement conveyed the thought that we had agreed to buy certain

bills and had later gone back on that agreement, the statement is not correct. He brought that point up at the Dominion-Provincial conference here in Ottawa in December, 1936. I answered in very definite and categorical terms that the implication in that statement was not correct, and he then dropped the subject. The bank, of course, should be careful, I think, not to embark on controversies, if it can possibly avoid it. Statements may be made in the country about us which we believe are incorrect; I think in the ordinary course of events the only thing we can do is to sit tight and saw wood. In this particular case, however, where the statement was made before the public accounts committee of a provincial legislature by a high civil servant, I did not feel that we could ignore it. I have been in correspondence with Mr. Walters. I finally wrote him the last letter a short time ago and said to him that I proposed to send copies of the correspondence to the chairman of the public accounts committee of the Ontario legislature, to ask him to lay it before the committee at the first convenient opportunity, which I assume, as the legislature has prorogued, will not occur until next year.

Secondly, in regard to our relations with the provinces in general, I have in the memorandum which I laid before the committee this morning indicated something of the character which we feel they should take. Our connection with the dominion government are necessarily very close. We are aware of their financial position from day to day and from month to month; we are aware of what their requirements are likely to be; we lack no information, so to speak, in that respect, and unless our relationship with a province could be equally close, I think that we would be incapable of giving them proper advice, proper assistance. I think that what I might call, if the committee will forgive the word, a half-baked form of relationship, a sort of touch and go affair, would be not only bad for the bank, it would be also bad for the province concerned, because with the relationship half-baked, the advice might be of a similar character. We have always expressed that view to provinces, and I think that there should be no doubt that all provinces understand that situation. It has been gone over again and again.

If a province decided to form or to propose to us to form such a relationship as we have with the dominion government, then I think we could do for a province the type of thing we do for the dominion.

I think that in the early days there was some thought that the main advantage would be to sell us bills or to borrow from us, and that would be all. In either form, such a relationship was simply expected to provide an additional buyer of provincial obligations, probably at very low rates. I have explained to various provinces that that form of approach would be bad for the governments of the country, and bad for the country as a whole. For example, you might find that at any one time the sum total of provincial borrowings from banks is not far from $100,000,000. I include in that not only the items of chartered bank statements which read, " advances to provincial governments," but also provincial treasury bill holdings which the banks may have and which are very often simply loans in another form. For us to loan on that scale and deal with the fluctuations involved as loans of that size are repaid and at a later date taken out again is, I think impossible. It is the case that if an individual province wanted temporary accommodation of $10.000,000 or $15,000,000 pending an issue or something of that kind, and if we were its main bankers and financial advisors, we could do that for them just as we do for the dominion government; but to consider a central bank as the main source of supply of provincial funds, even those required of a bank loan type, involves, I think, a failure to recognize the necessary limitations under which we work. Our main concern is the general control of credit, and following from that, the cash position of the banks. What that position is has a material effect on the securities' market, and it might be, and in fact I think

it would be the case that if we embarked too rashly on loaning to provinces, it would tend to upset the securities market. The securities market is of great importance to provinces, because they have, with the dominion government, billions of securities outstanding. Any disturbance of the securities market would much more than offset any advantage gained through temporary loans of moderate size.

As I said in the memorandum this morning, no province has ever asked us to act in that capacity. Now, I can only express purely personal views as to the reason for that. I have no evidence to support those views; they are my own. I believe a province would hesitate to ask us to perform any such function for them. I think in the first place a province is liable to say this: this bank is very closely connected with the dominion government. If we ask the bank to act as our main banker and as our financial advisor, that may mean that the dominion government will also know all about our affairs; and even if we, the provincial officials, know enough of the situation, to realize that that is not the case, and that the bank in accordance with its statute is prepared to operate honestly and impartially with provinces, how can we get into the heads of our people that what we are doing here is not some form of putting ourselves into the hands of the central authority? I need not explain to this committee that a thought of that kind has meaning in various sections of the country.

Secondly, if they disregarded the point to which I have just referred they might think along these lines: they might say, well, as the bank is not going to provide us with large amounts of funds at low rates, as its main function will be advice and assistance of another character, how good is the advice; is it worth while taking it? That I cannot answer, someone else will have to do that. They might go one step further and say, well, if the advice is good, it might be at times too good. Had we not better continue as we are? We have a number of strings to our bow, we can play one chartered bank against another if necessary. I do not say that in the sense that something wrong is done. I say it in the sense of competitive bargaining, where one bank or market syndicate will bargain against another. Perhaps provinces might think that produces the best result for them rather than leaning too much on the advice of or connection with any one institution.

I am not suggesting in any way, shape or form that these ideas, which are purely imagination on my part, if they were present in the heads of provinces would be in any way wrong ideas. They might be the type of idea that would come into the heads of provincial people wondering what was best to do in the interests of their own province.

By The Chairman:

Q. May I interrupt there to ask you what is the relation between the Commonwealth Bank and the state banks in Australia?—A. In most cases the Commonwealth Bank is the main banker; but, of course, the situation there is perhaps a very special one because of the existence of the loan council.

Q. You mean the loan council formed by co-operation between the Commonwealth and the states?—A. Between the Commonwealth and the states. It has certralized financing for the Commonwealth and for the states, so that the states do not in the ordinary course of events do their financing independently.

By Mr. Deachman:

Q. Would that feeling be present with the provincial governments if the bank were a privately owned institution instead of a government owned institution?—A. I should say, as Mr. Deachman knows, I am using my imagination in respect to the feeling of the provinces. No province has ever said this to me.

[Mr. Graham Ford Towers.]

I do not know whether the question he raises makes any difference or not. To some extent the difficulty would exist simply because of our very close connection here and our presence in Ottawa; whether it would make a major difference or not, I cannot tell.

By Mr. Macdonald:

Q. The provinces did not take advantage of the bank?—A. No, they did not; they have never asked us at any time.

By Mr. Deachman:

Q. Is there any difference between your position in regard to or your attitude towards the provinces in borrowing and the attitude which the commercial banks would hold to a borrower? In loaning to the provinces you want to be assured that the province is solvent—that it is a solvent borrower—and because of that you desire that the relationship which would exist between you and the province as its advisor should be more or less a continuous one; is not that the position?—A. That is true, but over and above that we would have to have considerations in our mind with respect to lending which the chartered bank need not have. Chartered bank lending is a matter of its own interest and that of the borrower—between itself and the borrower—we have that interest and over and above that we realize that our actions will change the cash reserves of the whole banking system. It is the type of thing, for example, which one will see at the time of income tax payments. If the dominion government deposited all those tax payments in their account with us, the banks would have their cash reserves badly cut; in fact a terrific situation would ensue. As a result a large portion of those income tax payments are redeposited in the banks to avoid that difficulty. The effect of a loan to a province is on the other side. For the time being that would swell the cash reserves of the chartered banks; it would cut them down when the loan is repayed. If done on a small scale it does not make much difference, but if done on a large scale it would create constant fluctuations in the banking structure, fluctuations which, I think, would disturb the securities markets and would actually be a penalty to the governments of the country, dominion, municipal and provincial.

By Mr. Tucker:

Q. I would like to ask a couple of questions which Mr. Towers could probably deal with at our next meeting. The very fact that once you make a loan to the dominion government you increase your cash reserves brought up a thought in my mind as to whether there is not a possibility of setting up, as they have in the Bank of England, two separate accounts for the chartered banks, one which would be regarded as a cash reserve and the other would be just an ordinary deposit account?—A. There is none in the Bank of England.

Q. I understand that the Bank of England takes deposits of an ordinary nature as well as operating as a central bank.—A. Those are the deposits which it used to have when it was a commercial bank. The amount now, I think, is roughly thirty million pounds. The tendency is for those deposits to go down over a period of years, because the bank is not taking any new accounts of that nature and they are allowing the old ones to run off as people die.

Q. We might deal with that situation by introducing that same sort of thing in regard to the government. I do not want to take up the time to go into that now. The other thing has regard to the April statistical summary. Is that summary out yet?—A. Yes.

Q. Apparently what I had in mind at the time I asked that it be furnished to the committee—perhaps the committee did not agree with me—but I had the idea that if the banking and commerce committee were going to follow intelligently what the Bank of Canada is doing the members should receive that

statistical summary right along as a matter of course.—A. If they have not received it, it is our fault, because the names of all the members are on the list.

Q. We have not received it.—A. I will check up on it.

Q. Another point is why the treasury bill yield in the United States is so much lower than it is in Canada; why they can obtain them cheaper in the United States than we can here?

The committee adjourned to meet at 4 o'clock.

AFTERNOON SESSION

The CHAIRMAN: Order, gentlemen. We may as well proceed.

In attendance: Mr. GRAHAM FORD TOWERS, Governor of the Bank of Canada.

The CHAIRMAN: This morning in reply to a question asked by Mr. Deachman, the governor of the bank made certain statements as to papers that had been filed with the public accounts committee of the province.

Mr. TOWERS: Letters exchanged with Mr. Walters which I proposed to send to the public accounts committee.

The CHAIRMAN: I would suggest, subject to the will of the committee, of course, that it might be as well to have that correspondence filed with us.

Hon. Mr. STEVENS: It is a good idea.

The CHAIRMAN: Further, I would suggest that the governor now or at some appropriate time relate more particularly the negotiations, if any, that were carried on between the governor and the officials at Toronto as to the purchase of their securities by the Bank of Canada.

Mr. TOWERS: Mr. Chairman, I will send over for copies of the correspondence and will have them here in time to place them on the record at this meeting. May I say that had this been the case of correspondence with a client in the form of a province, dealing with the client's business, I would have asked the committee not to press the request for filing of documents, and would have suggested that they were written in the course of business between banker and client, and to file them would be creating an unfortunate precedent. Of course, I am not pressing that in this instance, in view of the fact that this has become a public matter in Ontario. I think the situation is different, and therefore I do not raise that point on this occasion.

With reference to the chairman's suggestion that perhaps there might be some further feature of the matter which should be mentioned, in connection with the negotiations which took place in 1935, may I say that that will be very fully shown in the correspondence. I can only add that I did go to see Mr. Hepburn and various others in Toronto in May of 1935; but after explaining as best I could the general position of the central bank in relation to provincial financing, and stressing the fact that what was necessary in such a case was the intention of initiating a close relationship, I said that advice and assistance of an advisory kind was perhaps the best thing that the bank had to offer to any government. I then left the situation as it was for them to think over, and at the same time promised that a representative of the bank —in fact it turned out to be Mr. Henderson—should go there to inform himself in regard to their financial position so far as he could in a short space of time, so that if they should desire to suggest to us that a closer relationship should be formed, we would be prepared in a preliminary way, at least, to give that request proper consideration. Mr. Henderson did go and did inform himself as well as he could in the course of the day he spent there about

the main features of the current position. At a later date I went back and again explained our position. Nothing further came from these discussions, because the province never requested us to act in the only way in which we felt capable of acting.

Mr. DONNELLY: Mr. Chairman, this morning just as we were about to adjourn, Mr. Deachman put a question to Mr. Towers with regard to the financing of the Canadian National Railways. I wonder if Mr. Towers could tell us why it is that the Canadian National Railway bonds and the dominion government bonds, both of which are guaranteed, have a different rate of interest? Why is it that the Canadian National Railway bonds always carry much higher interest than the government bonds?

Mr. TOWERS: The difference in market value between the dominion government direct obligations and the guaranteed ones is perhaps on the surface a little hard to explain. One might believe that one would be as good as the other—in fact they are in the end. Well, the difference in yield in the market is usually $\frac{1}{10}$ of 1 per cent. I am taking the fairly long-term obligations. I am not speaking from the book of course. If the dominion government obligation yields say 2·95 you may find the Canadian National guaranteed one yields of 3·05; it is a small difference, but it exists. I think it is mainly a market matter, which I find difficult to explain in a way which would seem logical. It is a market feeling on the subject; there are certain other features which do enter into it, however. One is, as I recall it, that the dominion government obligations are exempt from transfer taxes; Canadian National Railway ones are not.

By Mr. Kinley:

Q. But succession duties as well?—A. No, just the transfer tax. When bonds are sold—

By Hon. Mr. Stevens:

Q. Would not the fact that before the government guarantee can be made effective in case there was a default, there would have to be certain legal matters observed, which might cause some delay and that might in the light of say, New York security houses, be a slight objection?—A. I dare say that enters into it, Mr. Stevens. It is usually the case that a guaranteed obligation—

Q. Of any kind?—A. In any private or public guaranteed obligation, they will usually sell slightly off from the direct ones.

By Mr. Deachman:

Q. With regard to the dominion government bonds, they have first recourse to the government; in the case of the railway bonds their first recourse is to the railway and then to the government?—A. Yes.

By Mr. Kinley:

Q. Is it a fact that because the Canadian National Railway's head office is in Quebec, the province of Quebec claims succession duties on the Canadian get mixed up if I tried to say exactly what they are. I do know discussion National Railway bonds?—A. There are some difficulties there; but I would takes place from time to time in regard to that feature.

The CHAIRMAN: Mr. McGeer, do you wish to go on?

Mr. DEACHMAN: Before Mr. McGeer begins, I should like to make a suggestion with which I think you will be good enough to agree. We have listened to Mr. McGeer now for several days, and I—and I feel certain many of the others—would like to hear from some other members of the committee. I am

not speaking of this matter as far as I am concerned, personally, because I have very few questions to ask; but I have listened to Mr. Landeryou, and you will recall that I asked some questions of him. I am very anxious to get Mr. Landeryou's replies on what he would like to do according to his Social Credit point of view. He was speaking and dealing with that matter when Mr. McGeer took it out of his hands and went on with the examination. I should also like to hear from Mr. Stevens, with whom I do not always agree, but who has brought out some points from time to time in regard to monetary matters on which I should like to hear his more detailed explanation. I think in fairness to the rest of the committee there ought to be an opportunity to hear from those, and without differentiating between these gentlemen I have mentioned and others, some others who might like to ask some questions. Therefore my suggestion is that Mr. McGeer be good enough to give them the opportunity to speak, and then if there is any time left the balance of it could be given to Mr. McGeer.

Mr. KINLEY: Let Gerry go on.

Mr. McGEER: I may say, Mr. Chairman, with reference to Mr. Deachman's remarks that I have discussed the suggestion that he makes with other members of the committee, and if I understand it correctly, the consensus of opinion was that my line of questioning should be followed out, and they would prefer to put their statements after the facts I was seeking were brought out.

Mr. DEACHMAN: In that case, I should like to ask the committee to give judgment upon that, and if necessary I would move that the other members have an opportunity to be heard. I am asking this matter of Mr. McGeer more as a courtesy to the rest of the members of the committee than anything else. He took the place of Mr. Landeryou when Mr. Landeryou was speaking, and has assumed that the other members would prefer to hear himself to Mr. Landeryou and the others. I think there ought to be certain definite limitations. We have limitations in the House of Commons, limitation to a forty minute speech, and if the committees are to be constituted so that one man shall speak for the entire session, then it is indeed a very peculiar presentation of the argument so far, at least, as I am concerned.

The CHAIRMAN: If I might make a suggestion, Mr. McGeer has stated that he can complete his examination this afternoon. If he completes his examination this afternoon we will proceed in the way you suggest.

Mr. DEACHMAN: We have heard Mr. McGeer with regard to that suggestion. As I recall it, quite clearly, he took the position when he took Mr. Landeryou's place in the proceedings that he then proposed to go on and spend a very short time on it. If Mr. McGeer is to go on, my suggestion is that perhaps the secretary of the committee should notify any of us who have other business to do and who might want to go on with other work or go into the house, and then we could come in after this examination is finished.

Mr. McGEER: Anybody who wants to do that can do it.

Mr. DEACHMAN: Again I submit it should be left to the judgment of the committee.

Mr. McGEER: I have not been here for at least four of the committee meetings at all.

Mr. DEACHMAN: Then, Mr. Chairman, I move that we give the opportunity to other members of the committee to be heard, and after that we can give Mr. McGeer an opportunity to complete his examination.

Mr. CLEAVER: I have a suggestion to make. In view of your comment that Mr. McGeer has indicated that he will complete his examination this afternoon, I would suggest to Mr. Deachman that he do not press his motion.

Mr. KINLEY: Hear, hear.

The CHAIRMAN: I think the motion should not be pressed, Mr. Deachman.

[Mr. Graham Ford Towers.]

Mr. DEACHMAN: I should like to hear other speakers first.

Mr. JAQUES: With regard to Mr. Landeryou, may I say he does not intend to give any plan to this committee, for the very simple reason that he has not any.

The CHAIRMAN: He said he had. Mr. Landeryou said he had a plan.

Mr. DEACHMAN: Yes.

The CHAIRMAN: I heard the other night in the House of Commons that you should not say that a man tells an untruth. That is on record. It is not parliamentary.

Mr. JAQUES: I think the committee misunderstood the term that he used. We have a general scheme, but no plan. As a matter of fact, it was arranged in our group that Mr. Landeryou was to occupy and have the first chance to address the committee, and he is now through, and I am to carry on from where he left off; but at the same time it was agreed, I think, that Mr. McGeer should have this afternoon to finish his examination.

The CHAIRMAN: Mr. Deachman, do you withdraw your motion?

Mr. DEACMAN: If I have no seconder for my motion I will leave it where it is. I still hold to my original conviction; that it is not a fair presentation to present one man's point of view to the committee.

Mr. McGEER: I am not presenting one man's point of view to the committee, I am trying to assist the committee to get the basic facts before them. I am happy to say that a good number of the committee have personally complimented me on the presentation I have made, and I am sorry Mr. Deachman doesn't like it.

Mr. DEACHMAN: I have heard compliments to yourself by yourself.

The CAIRMAN: Order.

Mr. DEACHMAN: But I have not heard those other compliments.

Mr. McGEER: I suppose you would not want to.

The CHAIRMAN: Order.

Mr. KINLEY: There seems to be two lines of thought before the committee and I think Mr. McGeer represents one of them. I do not agree with him but, at the same time, if he has anything to offer, I think we should try to hear it.

Mr. DEACHMAN: Would Mr. Kinley tell us what would happen to the other lines of thought if it took an equal length of time to express them?

The CHAIRMAN: I think, Mr. McGeer, you had better proceed. Mr. Deachman is not pressing his resolution.

By Mr. McGeer:

Q. At the last meeting I was dealing with the problem of finding some use that would serve in a practical way the need of Canada for money out of this abundant supply that we have. I think everyone in Canada is interested in finding some way to put a portion of that abundant supply to work. I dealt the other day with defence, and I should like to draw your attention to a statement made by the Minister of National Defence to the Davis Commission. It will be found in the report of that commission's finding at page 11. The commissioner says:—

> During his testimony the minister said:—
>
> I may say very definitely that the plan of government ownership as such has never been definitely abandoned; it has just been postponed because of the financial stringency which was particularly embarrassing to the Minister of National Defence.

Does it not seem somewhat paradoxical that we should have a supply of money in Canada measured, as we have measured it, at some ten thousand million

dollars in excess of what we are using, and yet in the all-important matter of defence the minister of defence should state that "the financial stringency was particularly embarrassing" to himself as Minister of National Defence?—A. You referred to a supply of ten thousand million which was not in use, although you recognize, I know, from what you have said before, that ten thousand million of potential paper money is not wealth which can be transformed into shells, shall we say?

Q. Did I say we could not transform it?—A. I assumed from earlier statements from you which are on the record that you did not visualize ten thousand million dollars as wealth.

Q. I visualize it as money in Canada.—A. And I also judged from what you have said earlier that you realized that paper money is not wealth and that when it goes beyond the bounds of serving as a useful medium of exchange it loses all value. Secondly, in regard to any statement made by the Minister of National Defence, I have no means whatever of commenting on that. What was in the mind of the Minister of National Defence and what was in the mind of the cabinet as a whole is not something for me to comment on.

Q. What was in the mind of the Minister of National Defence and what was in the mind of the cabinet as a whole when they limited the defence program to the financial expenditures that they did was the plain and simple fact that the government of Canada did not have access to money for defence purposes?—A. The government must therefore answer any question on that subject, not me.

Q. In any event, you would say that this abundant supply of money which is now established under the existing monetary policy of the Dominion is not such a supply as is available to the nation in part for defence purposes?—A. The question of the supply of money, as we have tried to state in various memoranda, is far less important than the question of the physical organization of the country. If ten thousand million dollars were wealth in itself, undoubtedly we would be a very wealthy country with the potentiality for expansion of the monetary base that we have. But how far that can go depends on the business and economic situation of the country and the effect which increasing credit will have on that situation. I do think we are talking at cross purposes as it seems to me that there is the thought there that somehow or other someone is standing in front of the pot of gold at the end of the rainbow and keeping ten thousand million dollars from the Canadian people.

Q. The thought that I have in mind is that when a group of empire statesmen meet together, as they did in 1932, with all the monetary knowledge they have at their disposal, and lay down a policy which calls for the maintenance of an abundant supply of money at low rates of interest, they at least have some idea that there is some purpose to be served from that abundant supply at low interest rates, and I am submitting to you that one of these purposes would be the defence of the empire nations?—A. I do not think that that group of empire statesmen ever intended in any way, shape or form that vast expenditure should be financed from increasing the supplies of paper money. They may have assumed that there would be such degree of expansion as seemed to be useful from a monetary point of view; that, so far as monetary action could do it, development and activity would be encouraged. I think that were they meeting here in Ottawa to-morrow they would say that in Canada the recommendations which were made at that time had been fully carried out.

Q. You think that in so far as the abundant supply of money is concerned we have got all the benefits from it that are available to us?—A. As at this date.

Q. As at this date, notwithstanding that we have an unbalanced budget in a national government; that we are going behind at the rate of, roughly, $100,000,000 a year, and that national expenditures now indicate that we must

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go behind more than that as time goes on?—A. Is the implication that the budget should be balanced by the issue of money to the government?

Q. I am not saying anything about that, I am simply asking you, Mr. Towers, if you got my question correctly, as to whether or not in the light of all these conditions, we have obtained from the adoption of the policy enunciated at the empire conference of 1932 and 1933, all the benefits that are available to Canada from that policy?—A. The question then resolves itself into this: Has Canada got all the benefits which could be obtained from the adoption of such a policy as was recommended by that conference?

Q. I understand we have adopted the policy?—A. Yes, but I am going to finish that question. Has Canada obtained all the benefits possible from the adoption of such a policy notwithstanding—because those were the words that were used—governments still have substantial deficits? The only understanding that I can gain of a question put in that form is that some extension of the monetary policy would remove government deficits; in fact however an extension of government spending, would tend to increase government deficits.

Q. But it would also tend to increase national income, increase the power to pay taxes and increase consumers' buying power and increase general business as well.—A. Depending, of course, on the character of the expenditures. We have, of course, put on the record anything that we can in regard to that particular subject. We have put it on the record on at least one occasion, and we have not taken the stand-pattish attitude that all government expenditure is bad. Not at all. We have suggested that to the extent that it takes place, particularly for the purposes which you mention, we in Canada need to exercise extraordinary care to try to see that the expenditure is of a character which will strengthen the economy rather than weaken it.

Q. And I read to you a statement of the Minister of Finance in which he told the House of Commons in Canada— —A. The Minister of National Defence?

Q. The Minister of Finance. I have read you the statement of the Minister of Finance in which he told our Canadian House of Commons that the huge expenditures now undertaken by the British government would improve business in Great Britain even to the point of our being able to improve business in Canada through the British improvement.—A. One may improve business at the expense of the capital assets of the country, and that I think is what is taking place in England. I think they are having to realize on their past accumulations in order to carry on.

Q. What I wanted to get from you is whether or not you can tell us any way by which this financial stringency which is embarrassing the Minister of National Defence can be improved?—A. I think that the Minister of National Defence, the Minister of Finance and the government must speak on that point.

Q. As governor of the Bank of Canada you have no information to give us?—A. I do not think it is my function to give information on that point, if I have any.

Q. I should like to draw your attention to a book which I found very interesting on industrial development in Canada, entitled, "History of munitions supply in Canada," by D. Carnegie. This passage is from an article written by the Hon. R. H. Brand, and will be found at page 310.—A. Yes.

Q. You know him, no doubt He is one of England's outstanding bankers to-day, is he not?—A. I think so, yes.

Q. He is a member of the firm of Lazard Freres?—A. Yes.

Q. He came to Canada as the representative of the British government and set up the Imperial Munitions Board in Canada and arranged for the financing of it here?

Hon. Mr. STEVENS: Did you say the book was written by Carnegie?

Mr. McGeer: Yes, D. Carnegie. The article in question reads as follows:—

> One of the most interesting and difficult aspects of the Board's work was its financial problem. From the very first there was, as may be imagined, no little difficulty in provding the sums necessary to meet the board's great expenditure, and as the war went on, the problem of providing American dollars to meet American expenditure, and Canadian dollars to meet Canadian, became one of the most pressing of the problems of the British government—a problem, indeed, which, had it not been for the entry of the United States into the war, might have had a deciding influence on the whole course of the struggle. When in Ottawa, Mr. Hitchens and I formed the opinion that the Canadian government should itself finance, on behalf of the British government at any rate, a very large proportion of the board's expenditure. Canada had hitherto always been a borrowing country. She had borrowed before the war some £40,000,000 a year from England, and it required a great effort of imagination on the part of Canadians to assume not only that they were to cease borrowing from England but that they were actually rich enough to lend her large sums of money. Such a development had, in fact, never crossed their minds. While in Canada I urged publicly in speeches before the Canadian clubs at Montreal and Ottawa that it was the duty of the Canadian government and people to lend money generously to the British government in order to finance the munitions program, and while we were still in Ottawa the Canadian government announced that they had decided to lend $50,000,000 to the British government for this purpose. A little later, as is fully explained in one of the following chapters, the Canadian banks came forward with another large credit, and in later months the Canadian government and banks continued to supply large sums of money.

Now, what we have there from Mr. Brand is a statement that in 1914 we were unconscious of our own capital wealth in Canada. What I am going to suggest to you is this, that right to-day we face a crisis no less severe than that which existed in 1914 and 1915, and notwithstanding that crisis we seem to have lapsed back into the condition of mind that Mr. Brand talked us out of when he told us that instead of being a borrowing nation we actually have the wealth to become a lending nation.—A. Of course, we are in a sense a lending nation now, so I think it would be requiring a considerable stretch of the imagination to assume that our frame of mind is the same now as it was then. A country which is financing all its domestic activity, too low a domestic activity of course, and at the same time repatriating foreign debts is not a borrowing country. You will remember, of course, that what took place during the war was in effect that we furnished materials. I am speaking now not of our own contribution of men and materials but of those other forms of contribution you have mentioned. We furnished materials, and the money lending end of it found effective expression in the materials with which we furnished the British government.

Q. Yes, but Mr. Brand states that instead of borrowing forty million dollars a year as we have been doing in the past we were quite able to abandon that policy because of our riches and become a lending nation.—A. We were able to do that for two reasons. We had been borrowing on a large scale for great development of which our railways were the major factor; that development was tremendous, reaching a peak about 1910 or 1912. At about that time some 400,000 emigrants entered this country in one year. Now, I do not want to labour the point, but the capital for the development which was going on at that time was provided in large measure by borrowings from abroad. In 1914 that stopped; and then as a result of a war we find this new demand for

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materials and supplies which were anxiously required by Europe; and on that basis, of course, we stopped borrowing, and of course, we could lend. It is as simple at A B C.

Q. Of course, at that time we had no production of gold such as we have now?—A. We had many other things.

Q. We had no developed trade and commerce; as a matter of fact our trade balances were not nearly as favourable as they have been during the past five years?—A. Our balances prior to the war were heavy import balances; naturally so due to the import of capital. The things merged together. There was a period of hesitancy, of course, in our commercial and general industrial life for a time after the commencement of the war, then the demand for war supplies became strong. Then came the wheat crop of 1915, one which to the best of my recollection was the largest in the history of the country and which sold at very substantial prices. Of course we could supply credit, because in fact we were supplying it in the form of those materials which we had in abundance, more than we ever had before.

Q. Of course, in addition to financing the munitions board we financed the Canadian cost of the war as well?—A. Yes.

Q. Yet we increased our bank deposits from $1,200,000,000 to $2,400,000,000 during that period?—A. Did it go up to $2,400,000,000 by the end of the war? I do not recall that figure. There was a substantial price inflation which took place during that time.

Q. And we have increased our bank deposits again subsequent to the drop during the depression up to more than $3,000,000,000?—A. $2,500,000,000.

Q. I think we have taken the gross figure, not the other?—A. Oh, both Canadian and foreign?

Q. Yes. That is $3,000,000,000?—A. Yes.

Q. Now, we had an increase in bank deposits, money wealth of Canada, during that period of, roughly speaking, 140 per cent?—A. I think it went from about $1,000,000,000 to about $2,000,000,000, an increase of 100 per cent; anyway, it was very substantial.

Q. And we did that in a period of six years?—A. Yes.

Q. In other words, during the period of the war, that is the six year period of the war, we increased the money wealth of Canada, that is the bank deposit money wealth of Canada by as much as we had accumulated during our entire history up to 1914?—A. If I may make a suggestion there, Mr. McGeer, I think it would be so much safer—you will forgive me for making the suggestion—to get away from the reference to money wealth; because, money most definitely is not wealth. What happened was that deposits which are the medium of exchange, doubled, during that period. And the value of the Canadian dollar was about halved; I mean, the value of the Canadian dollar in terms of commodities.

Q. That was because of the price rise?—A. Naturally.

Q. And then price levels began to drop and the money wealth again increased in 1936, and 1937, 1938 and 1939, and we have more money in Canada to-day than we had in 1920?—A. Yes.

Q. And prices are away below the prices in 1920?—A. Oh, yes, they are.

Q. Yes. Now, isn't this the inevitable conclusion, that as the volume of money in circulation increases prices fall?—A. No, not necessarily.

Q. Well now, let me point that out.—A. Yes.

Q. I think one of the fundamental fallacies in the economy of orthodox finance is to be found there; the assumption that prices will be raised by increasing the volume of money in circulation is a pure fallacy?—A. But who believes it?

Q. Well, all orthodox financiers believe it?—A. No, excuse me; not if they have any intelligence. Unless orthodox as it is so often used connotes or means stupidity.

Q. As a matter of fact, the quantum theory of money is based upon the assumption that as the volume of money expands— —A. Oh, no, no, no, Mr. McGeer; no such thing.

Q. I wish you would wait until I conclude my proposition.—A. Yes.

Q. As I understand it the quantum theory of money says, all things being equal, with the expansion of the volume of money prices rise, with the contraction of the volume of money prices fall; and it is on that theory, that by getting money into circulation under a pump-priming program, the assumption was that you were going to raise price levels of 1928.—A. That theory of course, as you stated it, has at the outset that helpful clause, " all things being equal."

Q. Yes?—A. Increasing the volume of money, if at the same time velocity is declining, will not necessarily result in an increase in the price level.

Q. No, but if you take the price levels of 1800 and take the increase in the volume of purchasing power over the last century and the portion of this century that we have run into you will find the volume as a medium of exchange rising tremendously throughout the world?—A. Yes.

Q. And you will find a consistent decline in the long-term period in the average of prices; and the reason for that I think is because with an increase in the volume of purchasing power the volume of production increases to the reduction of the average cost with the result that either due to competitive influences or the desire to extend the volume of business the producer will reduce his prices to the lowest level that is consistent with reasonable profit return on his activities. Might I give you one concrete illustration that exemplifies that completely: We to-day get automobiles at a price that makes them a thing of general use simply because the volume of automobile purchasing power is in such great volume that we have mass production and a volume of production that puts this type of thing on the market at a very low cost. It is the same in our units of travel, and every single item which you want to look at. The reflection of an increased volume of purchasing power is to reduce the cost as the volume of consumption increases the volume of production. We have had that very thing in the war, if I might be permitted to state the facts; we had a tremendous increase in the average purchasing power during the period of the war after the war period, and we had a tremendous expansion. There was a rise in the price level during the war period and it was largely due not to the increased volume of purchasing power that came into being but because the conditions were opportune for an exploitation of the price level, and in Canada one of the most vicious exploitations of the price level we have faced was in the issue of 5½ per cent tax free bonds. Now, just as soon as that period which was opportune for exploitation of the price level disappeared you got the immediate reaction of a decline in prices; and what I am saying to you now is this, that if we in Canada could find some way of putting into circulation through wise investment a greater volume of purchasing power we would do what Mr. Dunning says they are doing in England, improving the business of the whole community. Now, do you disagree with that proposition?—A. No one in possession of his senses would disagree with that proposition. But you said, of course, wise investment. And now, we will all agree that the development of new industries and a general increase in the productive strength of the country, would be wise investment. But if there should be any suggestion that I should be asked to speak about what would be a wise or unwise investment of public monies, it is there that I think I would be going beyond my functions.

Q. I mean, I don't want to embarrass you in your position as Governor of the Bank of Canada, but I certainly think you should give us such information as you can in your capacity as a public servant operating a publicly owned institution largely concerned with banking.—A. To go further than that, I do not think I should make any statements either pro or con.

Q. I am not so sure about that, because after all, this is a committee of parliament and we are sitting here discussing this problem because the Minister of Finance has thought fit to place before the committee of parliament the report of the Bank of Canada and has asked us to review that and to bring in whatever recommendations this committee see fit to bring in. So that I think it is only fair to say that this committee is a committee of investigation whose primary duty is to find some way of improving the general financial situation and the general economic situation in so far as the monetary factors are concerned and the employment situation in Canada, so far as monetary factors are concerned—of the whole dominion. So I do not think that you need to feel that we are not an open committee, free to secure the best advice you can give us on any of those subjects. What I should like to suggest to you is this: When you refer to wise investments do you, as a banker, think that the meeting of the cost of essential national defence is not a wise investment at a time like the present?—A. Mr. McGeer, I am sorry we are coming back to that impossible hurdle. It is impossible for me to express any opinion in respect to such a question.

Q. Very well.—A. After all, it is not a question of information which I have on file, it is opinion.

Hon. Mr. Stevens: I wonder, Mr. McGeer, if that question could not be put in a little more abstract way?

Mr. McGeer: I should be glad if you would do it.

Hon. Mr. Stevens: Let me suggest that you put it perhaps this way: Has the governor of the bank considered or would the governor of the bank consider that an expansion of government activity or public expenditure along the line which parliament would declare to be sound and proper have an effect? What effect would it have or would it have the tendency such as you have been seeking to show? Leave it in the abstract rather than specify defence; because I can quite appreciate the governor's feeling. He does not want to say "yes" or "no" to that question and probably do violence to the views of the government.

By Mr. McGeer:

Q. I think probably it might be put in this way: Assuming that parliament would decide on a policy of public expenditure for national defence, using the existing facilities for increasing our bank deposits by discounting government bonds at such a rate of interest as parliament would declare, do you think that we could finance such a program under our present system?—A. Leaving entirely out of the question the specific objects of any expenditure, we have said before —and I have said again to-day—that expenditures that increase the economic strength of the country in any way, shape or form are desirable, whether they be public or private. The question as to whether this or that expenditure does in fact conform to that principle is another matter. If such expenditures are being made which increase the economic strength of the country, there is raised the question as to whether or not they should be financed by borrowing from the people or whether they should be financed by the creation of additional credit. Whether the latter would be bad or good will depend upon the general upward movement in the country's production. A certain degree of general upward movement could, no doubt, be accompanied by a certain increase in the medium of exchange, other things being equal; that is, if the velocity did not increase to an extent which made it, from a monetary point of view, unnecessary to increase the sum total of the means of payment. That is about all I could usefully say on that point, I think.

Q. Well, Mr. Towers——A. May I add something to that? Excuse me for interrupting. We should always remember that activities of that kind do not necessarily depend upon increasing the quantity of credit or paper.

Q. Or bank deposits?—A. Or bank deposits. There is always the possibility of borrowing from the people.

Q. Then I take it, from what you have said to us, that the preferable way of financing any such program as that would be by borrowing from the people, from their accumulated savings which are now in the banks to the extent of $1,600,000,000, as I understand it. Is that right?—A. Yes; at least, that is the amount of the deposits.

Q. That is the amount of the savings bank deposits?—A. Yes.

Q. And your suggestion is that the preferable way of financing public expenditures is to borrow from that accumulated reserve of savings in the possession of the savings banks?—A. No, I did not necessarily say that. I said, first of all, that whether an expenditure was desirable or not depended upon the object to which it was to be devoted. If it increased the economic strength of the country, all right; if it did not, it is not so good. Secondly, in respect to the method of financing, I said that if there were no other general reasons which made it desirable for an increase in the amount of medium of exchange to take place—if there were no general reasons for that, then presumably the right policy is to do it by borrowing the people's savings.

By Mr. Cleaver:

Q. Or taxation.—A. Or taxation.

By Mr. McGeer:

Q. Or taxation. Then if the public are not willing to lend and taxation has reached a point where it would not be wise to increase taxation—because, after all, there is a line of diminishing return—then the alternative would be—

Mr. KINLEY: Stop spending.

By Mr. McGeer:

Q. —an expenditure by way of discounting governmental securities through the banks and increasing the volume of bank deposits?—A. You make that assumption there that the people are unwilling to lend.

Q. I say, "If the people are unwilling to lend."—A. Yes, if the people are unwilling to lend. I find it very difficult to evolve anything of an orderly or sensible character on the basis of that assumption; because it does mean, presumably, that the people have lost confidence in their government, does it not?

Q. Well, as I thought I put it to you fairly clearly the other day—

Mr. KINLEY: Or in their country.

Mr. TOWERS: In their country? Well, yes.

By Mr. McGeer:

Q. —it might be that the rate of interest is not attractive; because, after all, the government would fix the rate of interest. But I do not care what the reasson is, Mr. Towers. I say if the people are unwilling, as Mr. Eccles pointed out, to invest; if the tax level has reached a point where it is not wise to increase it any further, then is not the alternative—and I might say to Mr. Kinley that we are assuming that governmental expenditure is considered essential and necessary and has been decided upon; I mean, that is the premise—to discount through the banks the government securities and increase the volume of bank deposits?—A. Well, certainly history would support that view. In other words, there have been many occasions where governments have got into a fix, have got their backs to the wall, and saw no other means of going ahead except on the basis which you mention; and they have done that.

Q. Yes; and what you call a "fix" is either a crisis of war which means defence of the realm or an economic crisis in which the internal fabric of the

[Mr. Graham Ford Towers.]

nation is crumbling because of inability to maintain orderly progress with reasonable prosperity?—A. It has crumbled for various reasons in various countries.

Q. Whenever you get a condition where your defence of the realm is an essential necessity, should you not move to that defence? And if your people will not give you their money on the terms upon which you want it, and if you have got taxation to the point where you cannot increase it any more, should you not resort to the process of increasing your bank deposits by discounting your securities?—A. It is a contradiction in terms; because if it is the policy of the government to do such and such a thing, your people must give it to you.

The CHAIRMAN: The people are the government.

Mr. KINLEY: There never was any question in connection with the defence of the country as to the country not being able to afford it if they wanted to. It was a matter of policy. He says the government has been stingy or that they will not give him that much money.

Mr. McGEER: He does not use that language.

Mr. KINLEY: That is what he means.

Mr. McGEER: I do not think so. He says it has been postponed because of financial stringency which was particularly embarrassing to the minister.

Mr. KINLEY: One reason is as good as another.

Mr. McGEER: I would say this: If we are to accept Mr. Kinley's statement, then the government refuses to spend money for defence nothwithstanding that they have got the money.

Mr. CLEAVER: No; they do not want to increase the debt.

Mr. McGEER; Then, of course, if you must increase the deficit, it is because you have not got the means.

Mr. KINLEY: My statement is that the fact that they did not spend more in defence is no evidence that the country is without resources; that is all. They can get them if they want to.

The CHAIRMAN: I suggest we do not labour the point. It is now five minutes after five. Time is passing very quickly.

Mr. McGEER: Mr. Chairman, I want to point this out. I came here in the hope that I could make some contribution to the improvement of the finances of this country, and I thought this committee was one place where we could have a free discussion upon that matter. I thought when we came to this parliament we came here with a great purpose to fulfil. Let me for one moment—

The CHAIRMAN: Mr. McGeer, I am just suggesting this.

Mr. McGEER: Let me read a statement—

The CHAIRMAN: I was just trying to suggest that time is passing. You are not going to be here to-morrow, and I thought you wanted to complete your examination by six o'clock.

Mr. McGEER: I am not in any hurry to complete an examination that will solve the unemployment problem or the problem of distress and poverty that exists in this nation.

The CHAIRMAN: I understood you were.

Mr. McGEER: Let me put on the record one statement of the Prime Minister of this country to-day, which was made at the close of the last campaign and is his statement to the people of this nation as to what this government would do under his direction. He said:—

> In the new era which dawns to-day, the struggle for the rights of the people will, in the realm of economic liberty and security, be carried on as never before. Poverty and adversity, want and misery, are the enemies which Liberalism will seek to banish from our land. They have

> lain in wait at the gate of every Canadian home during the past five years, and their menacing mien has served to destroy the souls, as well as the minds and bodies, of an ever increasing number of men, women and children in our land. We take up at once, as our supreme task, the endeavour to end poverty in the midst of plenty, starvation and unnecessary suffering in a land of abundance, discontent and distress in a country more blessed by Providence than any other on the face of the globe, and to gain for individual lives, and for the nation as a whole, that "health and peace and sweet content" which is the rightful heritage of all . . .
>
> The election is an endorsation of the Liberal view that credit is a public matter, not of interest to bankers only, but of direct concern to every citizen. It is a verdict against a privately owned and controlled central bank, and in favour of a properly constituted national bank to perform the functions of rediscount, and the control of currency issue considered in terms of public need. There can be no mistaking the demand for a restoration to the government of Canada of control over credit and currency issue. As the campaign proceeded, the issue of the control, by the people, of all functions of government, through their representatives in parliament, and not by any other power became increasingly clear. The electorate has declared that a responsible ministry, not organized finance and international money power, is to control in all matters of state.

This is the first opportunity we have had as a banking and commerce committee to discuss those problems in a long period of more than four years; and what do we find? One of my colleagues from the government side asking that I be shut out of the discussion in this debate.

The CHAIRMAN: No, no. I beg your pardon.

Mr. McGEER: When I start to examine the head of the Bank of Canada on how we are going to improve the means of financing the defence of this nation, I am told by the chairman of this committee that he has got his eye on the clock and that he would like to help me to get through.

The CHAIRMAN: Mr. McGeer, please.

Mr. McGEER: I can quit right now if that is the wish of the committee.

The CHAIRMAN: Listen to me for a minute, Mr. McGeer. You misunderstood the situation.

Mr. McGEER: I did not misunderstand it.

The CHAIRMAN: Yes, you did. I understood you were anxious to complete your examination this afternoon. When Mr. Kinley made an interruption, I intervened to say that you should be given the opportunity to go on and continue your examination. I want to say this also, that there are other members of the committee who would like to do some examining.

Mr. McGEER: I am quite willing to turn it over to other members of the committee any time members of this committee ask me to do so.

The CHAIRMAN: The understanding was that you should have this afternoon; and I was trying to carry out that understanding.

Mr. McGEER: I am doing the best I can——

The CHAIRMAN: Go ahead.

Mr. McGEER: ——to make some contribution that is worthwhile.

The CHAIRMAN: You are making one. We all admit that.

Mr. McGEER: I have no quarrel with the Bank of Canada or anybody else, but I have a desire to see a land more blessed by providence than any other land on the earth, facing squarely and honestly the problem of making

conditions better for thousands of destitute Canadians who are only destitute in Canada because of the misguided monetary system from which we are suffering.

The CHAIRMAN: You have no monopoly in that desire; we all have that desire.

Mr. MCGEER: We are coming to a time, Mr. Chairman, when we are going to discuss these issues again with the people of Canada.

The CHAIRMAN: Quite right.

Mr. MCGEER: And we ought to be able to get something on the record that will help us to discuss that intelligently when that time comes.

Mr. KINLEY: Let us discuss that.

Mr. MCGEER: We will do that. If, Mr. Chairman, the discussion of how to finance the defence of this nation at this time is not a pertinent matter in this inquiry, then I wonder what possibly could be?

The CHAIRMAN: Mr. McGeer, I suggested that you should be allowed to continue your examination without interference.

Mr. MCGEER: I know.

Mr. KINLEY: Without questioning?

The CHAIRMAN: Yes, at the present time. This is Mr. McGeer's afternoon. Let him complete his statement. You can have to-morrow.

Mr. MCGEER: I have said to the members of the committee on other occasions that I do not want any member of this committee to feel that they cannot ask me any questions or get any information from me that I can help them with.

The CHAIRMAN: There are other people who want to go on.

Mr. CLEAVER: I think Mr. McGeer has entirely minunderstood our chairman. I think the chairman was trying to help rather than hinder you, Mr. McGeer. I think you took him up wrongly.

The CHAIRMAN: Continue; we shall talk about it after.

By Mr. McGeer:

Q. Now, Mr. Towers, there is another matter. You do not seem to be of the opinion that if we put people to work in Canada financing a development of armament program based on our great mineral industry, that it would be something that would improve the wealth and security of the nation?—A. I did not express any opinion whatever, Mr. McGeer, and having in mind that so far as I know the object of the committee in having a witness before them is to ask him for such information as he may be able to give, and not expect him to pass on government policy or anything of that kind, it seems to me that question, which puts answers into my mouth, is far more suitable to the tactics of a court than it is to this committee.

Q. Well, I think we had better leave that alone, because we have got along very well so far. I think probably we would be better off if we let that go. I put that question to you again, and I want you to follow it, and I will put it in another way. I say to you, that in the light of modern world conditions, Canada has a duty and an opportunity to establish an armament industry based upon the manpower idle and the mineral resources of this country, that will add to the security of the nation and will improve the economic situation within the nation by giving worthwhile employment to large numbers of people, and that such a program could be financed out of the abundance of money that is available under our existing monetary policy? Have you any fault to find with that?—A. Any expenditures, whether they are on armaments or other things, which add to the economic strength of the country can be financed without any sacrifice on the part of the people. If it is a form of expense which does not add to the

economic strength but is nevertheless considered by the government and the people to be essential, no doubt that can be done too on the basis of sacrifice by the people. I cannot add anything to that, I think.

Q. Well, now, I go back to the proposition of tourist trade, and I will put it to you in the same affirmative way. I say to you that in the light of our position in Canada, we in this dominion, can to the advantage of the nation and to the advantage of our international balance of payment, embark on a program of highway construction, improvements to parks, beaches, centres of natural beauty and natural wonder, a broad program of beautification of both city and countryside from coast to coast, and that we can finance that program to the advantage of the nation and relieve unemployment by such a course. Have you any fault to find with that?—A. I say—

Q. And that we can finance that out of the abundance of money that we possess?—A. I am afraid I shall be trying your patience by practically repeating what I said before.

Q. If you would like to shorten it, you could say in answer to that question, "see the answer I gave to the previous one."—A. That is, a useful expenditure does not drag a country down, and therefore, as you will see by that, I feel that I cannot answer in a way which would be in the form of endorsing this expenditure or that or the other. I think that that is hardly my function here; other people are just as capable of determining whether such expenditure is a strengthening expenditure or not.

By Mr. Cleaver:

Q. Don't you think you are drawing the line too fine when you say that? You are the governor of our central bank. Should not you express an opinion as to what are the expenditures which would add to our economic strength?—A. We are speaking now specifically I think of public expenditures—

Q. No, in general. What type of expenditures in general?

By Mr. McGeer:

Q. I was speaking of the tourist trade. The tourist trade is specific.—A. If it is a question of private expenditure it, of course, always passes the test of, can it earn its keep? so to speak and the expenditure goes ahead on that definite basis. In respect to public expenditures there are various kinds where the government has to say, we cannot specifically draw a revenue from this, but we think it is of a character which will strengthen the country as a whole, so that indirectly we can get it back.

By Mr. Cleaver:

Q. Your opinion being a non-partisan opinion, I take it, would be of great use to this committee, and I should like to press for an answer to Mr. McGeer's statement.—A. I may have the wrong view, after all I may be wrong in a lot of things; but I do think it would be quite wrong for me to urge or recommend any particular form of government expenditure, which is, after all, a very intimate question of government policy.

By Mr. McGeer:

Q. Of course, we have gone back to that. We have gone over that again. As a matter of fact, I want to say, Mr. Chairman, and I do not want to say it offensively, that I thought when I read the preamble to this act and read the Canadian Macmillan report that one of the things we were going to get from the governor of the Bank of Canada was some advice on what we could do financially. Now, apparently we are not getting that. However, that is a matter for you to decide.—A. I do not think that is the case, Mr. McGeer. I

think that if the government decided that it was going to go ahead with a policy of expending money on certain things—

The CHAIRMAN: Including roads—

Mr. TOWERS: Including anything which they thought would add to the economic strength of the country—

Mr. McGEER: This committee, if you will pardon me for saying so, is here, as I take it, to carry back to the government some recommendations as to what might be done to improve the economic conditions of this country.

Mr. CLEAVER: That is right.

Mr. TOWERS: The government having decided that it is going to do such and such a thing has then various alternatives with regard to finding funds.

Mr. CLEAVER: Before we decide, have not we the right to know from you in the light of our financial situation how far we can go and how best we can move to reduce the cost of any program of necessary development to the minimum?

Mr. KINLEY: That is for us to decide.

Mr. CLEAVER: I wonder if you would permit me to say this. Would this question embarrass you, Mr. Towers: what in your opinion is the best form of expenditure which this country could make to add to the economic strength of Canada?

Mr. KINLEY: He has said that before.

Mr. CLEAVER: No, no.

Mr. TOWERS: I think that is a question of policy.

Mr. LACROIX: Mr. Chairman, we understand the governor of the Bank of Canada is supposed to advise us as to the best way of financing this country. I do not believe the governor of the Bank of Canada now is telling us anything about it. He is just avoiding it in his replies.

The CHAIRMAN: I doubt if that is our reference.

Mr. CLEAVER: Let us get an extension of our reference, then.

Mr. McGEER: We may have to do that.

Mr. TOWERS: I think what happened is this: the government decides on the expenditures and then they are financed in the best way possible.

Mr. CLEAVER: Mr. Towers, should not you—

Mr. LACROIX: You are supposed to advise the government.

By Mr. Cleaver:

Q. Should not you tell us what in your opinion is the best form of expenditure to make to add to the economic strength of this country?—A. If that were the intention then certainly the Bank of Canada would have to be equipped with engineers, with a vast staff which would be ranging the country trying to decide what were the best forms of expenditure.

Q. Who is better placed to advise us than the central bank in that regard?

The CHAIRMAN: Mr. Stevens and Mr. Ross and I will advise.

Mr. TOWERS: If I am wrong, then I think functions of that type should be more clearly indicated, because it is not the function which is performed so far as I am aware by any central bank.

By Mr. McGeer:

Q. I can tell you this, that everybody throughout this country from one end of it to the other, is anxious to see idle men and idle money——A. I realize that as well as you do, Mr. McGeer.

Q. —put together in some constructive enterprise. Every man and woman in this country is anxious to see our social services expanded, with the exception of a very, very few who place money values above human values.—A. None of whom are in this room, I am sure.

Q. I do not think there are any here.

The CHAIRMAN: Nor in Canada.

By Mr. McGeer:

Q. I am glad to hear that. I am afraid I hear expressed from time to time through some of our newspapers, suggestions that a great many of our social services are unnecessary and an improper burden for the taxpayer to carry. However, I won't go into that now. Do you feel that the possible investment in defence—I have dealt with the possible investment in tourist trade development. Now I come to the question of social services, and I think I can say to you that after reviewing most of the countries of the western civilization, that notwithstanding that our dominion is more blessed by Providence with wealth than any other land on earth, we lag far behind all western nations in the matter of social services. Do you think when we pay pensions or contributions to those whose standard of living is raised from a level below that which it should be to the level that is commonly accepted as right and reasonable, that that expenditure of money does not increase the consumers buying power, which would not exist if those services were not performed by the government? Do you agree with that?—A. If I were here as an ordinary citizen of the country I would answer that question quickly enough, but I am here as governor of the central bank. I can express within certain limitations, within the limits of my knowledge, views in regard to any particular method of financing which may be proposed. Further than that, I am sorry to say, I cannot go.

Q. Then I put it to you this way: That with our abundant wealth of resources and our abundance of money are we in a position to undertake and finance a program of improved social services throughout the dominion, in your opinion?—A. I would say that whatever policy the government may decide upon can be implemented provided they are willing to ask the citizens of the country for the ways and means with which to do it.

Q. Now, I come to another matter. We do know that our provincial governments are desperately in need of finances to carry on the functions of provincial government as are demanded by the people whom those provincial governments represent in the provinces. Do you think that out of the abundant supply of money which is now available to us our national government can finance any substantial measure of assistance to the provincial governments?—A. I can only repeat that money is not wealth; that governments can follow what policies they choose to adopt; that in certain cases they have to ask the citizens to supply sinews of war; and if it were the case that through the expansion of credit or currency on a tremendous scale one could produce a rabbit from a hat and make it possible for the governments to do all the things which they desire to do without asking for any sacrifices on the part of the citizens of the country who are able to make sacrifices—that is, those who are—if it were the case that by some monetary legerdemain it were possible to have all these things without sacrifice, then certainly I would be open to criticism, and any central bank would, if, it stood between the people and this pot of gold. But that, I do not believe, is the case.

Q. If what you are telling me now is correct we come back, of course, to the proposition that there is not very much to this new monetary policy that was laid down in 1932 and 1933 and which the Dominion of Canada has adopted, because you now say to me that to get access to that abundant supply of

money involves something like taking a rabbit out of a hat or something like removing the Bank of Canada from its position between the people and this ten thousand million dollars which you have told me— —A. Is not wealth.

Q. —is available.—A. Is not wealth.

Q. Well, you say that, but what I want to get at is this: It may be a purely illusionary proposition and the policy may be of no value but I cannot bring myself to believe that the men who laid down that policy intended to create that abundant supply of money at low rates of interest unless they had in mind that it would be accessible for defence, for trade develapment, for social services, for the betterment of provincial governments, the betterment of municipal governments, the improvement of the standard of living, the distribution of national income and the well-being of the people at large.—A. Yes. Well, that abundant supply of money, at least a much more abundant supply of money than was available at that time, has come into being in Canada. The results have been that governments, not only the dominion but others who had credit standing, have been able to finance public expenditures on a tremendous scale during the course of the last ten years.

Q. By going in debt?—A. In fact, I was going to say the complaint which comes from certain directions is that the debt increases have been too large. We have referred to figures in previous meetings. They are very large. Governments have been able to do that, and in general without adding—certainly this is true so far as the dominion is concerned—to their interest charges. That has involved sacrifices on the part of the people throughout the country. In other words, the good which has come to governments, in respect of being able to borrow great additional quantities of money and reduce their charges at the same time, has not been costless in any sense; it has represented a sacrifice on the part of the people.

Q. What sacrifice, for instance?—A. A sacrifice on the part of the people who hold fixed interest obligations or who have savings deposits or who have life insurance policies. Naturally they find their income very much reduced. Now, that is not criticism on my part of that policy; I just mention that they have had to make this sacrifice. Now, if it should be decided that the same policy should be pursued, perhaps even on a much larger scale, all I am pointing out is that it is within the power of parliament to do so, but that parliament would not want to do so without knowing it was imposing a material sacrifice on a certain number of the Canadian people.

By Mr. Kinley:

Q. Much of this provincial debt in eastern Canada is revenue producing? —A. Yes.

Q. For instance, hydro, and all that sort of thing?—A. Yes.

Q. It is really an investment which builds up an asset. Even roads. There are some things like defence from which there is no revenue, but that is different altogether.

By Mr. McGeer:

Q. I have dealt with roads. I have dealt with social services, I have dealt with provincial assistance, municipal assistance, and I think that policies of bonuses to industry which are in existence in practically every nation in the world to-day— —A. If I might make my position a little more clear and perhaps a little more understandable it is this: I do not suggest for a moment that there is any amount of public expenditure that a government cannot undertake provided it realizes that it is asking for a sacrifice on the part of someone in doing so, and provided the people as a whole are willing to make the sacrifice.

Q. I want to come to that. I may be entirely wrong, but I find myself believing that I can read the declarations that were made prior to the last

election; that a new era was going to be ushered in and that that new era was going to come primarily through the institution of governmental power to control and regulate the creation, issue and circulation of the medium of exchange in terms of public need, not private gain. I thought by that that we were going to be able to attack the enemy, poverty and destitution and unemployment, by seeing to it that a better and more sustained circulation of the medium of exchange was brought about. What I want to point out to you is this: We apparently have an abundant supply; we have destitution and unemployment facing vast opportunities for constructive Canadian development. For instance, the number of people who are destroyed through the failure to eliminate level crossings in this country is a crying shame to the whole administration of this nation. That is only one item. We do not need to import any materials. We have an abundance of idle labour, and yet, for some reason, we cannot find the means of putting labour and material together to make our highways safe against the destruction of human life. Now, is there no way by which we can finance public enterprise, no way by which we can exercise control that will reduce the cost of money to governments and provide the medium of exchange that governments must have to put men at work on materials to produce things that are needed and worth while within the nation?—A. I think that question has come up before in various ways and that in effect, although you may not quite agree with this method of putting it, it simmered down, in fact almost all the questions that have come up in the committee have simmered down, to this: Is there no costless way in which these things can be done? Now, I have failed to find a costless way.

Q. All right, let me put this proposition to you. On your own evidence it is now established that the money of Canada is a creature of the laws of Canada?—A. Yes.

Q. That parliament does, by enacting laws, provide the means of creating, issuing and, in a measure, controlling and regulating the circulation of Canadian money. That is correct?—A. The amount; hardly the circulation.

Q. The amount. All right. Will you tell me why a government with power to create money should give that power away to a private monopoly and then borrow that which parliament can create itself back at interest to the point of national bankruptcy, because, if we cannot finance the things that are necessary it means that this nation cannot meet its current obligations. But we will eliminate the question of bankruptcy and leave the question: Why should a government with power to create money borrow that money at interest?—A. Presumably it does so because it wants to give the people a medium of exchange with which they will be satisfied. Now, speaking of borrowing that money, we realize of course that the amount which is paid provides part of the operating costs of the banks and some interest on deposits. Now, if parliament wants to change the form of operating the banking system, then certainly that is within the power of parliament. Secondly, if parliament decided that it would proceed with such and such an expenditure by means of legislating for an increase in the note issue—two hundred, five hundred, a billion dollars—there are no limitations on parliament; it could do so. I would not be here to say that parliament must not do this. That would be foolish. Parliament can do as it sees fit. I can express opinions for what they may be worth on the results of any given method of financing.

Q. I put the question to you: If I as an individual had the power to create money, do you think that I would ever give that power away and then borrow back that money which I could create at interest, without being completely lacking in any understanding of sound business principles?—A. If you thought it was more profitable and more effective to do so, I daresay you would.

Q. Can you conceive of anyway by which I, as an individual with power to create money, would give it away and then borrow it back at interest which

would be more profitable to me?—A. Of course, what an individual might do is different from what a government might do, because the government acts in what it conceives to be the national interest.

Q. If I did that, I would find myself loaded up with unpayable debts.—A. Is your sole vocation, under this assumption, one of creating money?

Q. Yes, and carrying on my normal activity.

Mr. CLARK: Might I interrupt Mr. McGeer? Mr. McGeer states, I believe, that money is created by the banks by a system of bookkeeping. Is not the function of bookkeeping to record transactions? It does not create money, does it?

Mr. McGEER: I think if you will read the record, Mr. Towers answered that very fully.

Mr. CLARK: Your idea is that the bankers make money by a system of bookkeeping?

Mr. McGEER: As I say, the record is quite complete with respect to Mr. Towers' views on that.

By Mr. Kinley:

Q. While we are on this question of interest, Mr. Towers, who determines it? We all know there is a 7 per cent limit, but is there a monopoly control of interest rates in Canada? How is it determined, by the banks just getting together and saying this will be the rate, or is there any way that they must arrive at it by scientific process?—A. I would say that it is a question of survival as much as anything else.

Q. What do you mean by survival?—A. Survival in relation to meeting operating expenses.

Q. And their rate is determined so that they make a profit?—A. So they can keep alive.

Q. Do you think in the last fifty years they have made an abnormal profit? —A. I should think that a great many people would try to avoid that question because the suggestion that the banks have not made large profits is a most unpopular suggestion.

Q. Yes?—A. I could not.

By Mr. Cleaver:

Q. And almost an untenable suggestion?

The CHAIRMAN: How many years did you ask for?

Mr. KINLEY: Go back 25 years.

The CHAIRMAN: How many banks have failed in that time?

Mr. KINLEY: There have been some, there was the Home Bank, and the little banks in Nova Scotia all got squeezed out.

Mr. TOWERS: I suggest that most people would answer that in the popular way and say that large profits had been made. I could not say that. I would not be telling the truth if I did say it. No, they have not.

By Mr. McKinley:

Q. Now, just for a moment, it seems to me that in the last ten years that the institutions of this country that have consistently made money, notwithstanding your answer, have been the financial institutions of the country?—A. It is true, if you put it on that basis, that the banks have been able to carry on paying dividends.

Q. Not only the banks but the trust companies as well?—A. We were speaking of the banks, I do not know the situation with respect to others at all well. It is true the banks have been able to continue paying dividends

whereas various industries have not. Whether that is desirable or not must be a matter of opinion. It is true that if they had been forced to eliminate dividends it might have created disturbance in the minds of the people.

Q. There is an impression among the people of this country that the banks of this country are very strong, and that is very desirable?—A. Yes.

Q. And they control the situation? After all, it just comes down to the question of the individual, it is a thing between me and my banker, whether he thinks I am to get the money or whether he thinks that I am not to get it?—A. Yes.

Q. Now, that auditorship is distinctly in his hands?—A. Yes, and then there would be the question as to whether with ten banks, is there sufficient competition? So that if one will not provide your requirements you may go to another with some prospect of filling them.

Q. There is one thing about the banks, though, they never quarrel, at least not in the open; they keep things to themselves in that regard, they co-operate at least in so far as things of that kind are concerned. I think there is competition, and that it is good business. Anyone who has a good business does not need to worry, it is the one who is just on the borderline of solvency that worries.

The CHAIRMAN: They did not quarrel, but they had differences of opinion before this committee last year.

Mr. KINLEY: Yes, I know.

By Mr. McGeer:

Q. Now, the point that Mr. Kinley raised there is the very issue that we threshed out I thought in the last election, that instead of leaving the bankers in control we were going to transfer this control of the issue of currency for public needs from the bankers to the government. Now, you do exercise some control in the Bank of Canada?—A. Yes.

Q. As I understand it your control is— A. Quantitative, you might say.

Q. Yes, your controls were outlined to us by Mr. Dunning, I think, on two different occasion in the House of Commons, and I think he gave us the statement that the method of control was first through the Bank of Canada's power to fix the rate of interest at which the Bank of Canada loaned legal tender cash to the merchant banks; is that right?—A. Incidentally, the importance of the bank rate both in this country and most other countries, certainly in the United States and in the United Kingdom, has been negligible during the last four years. It may become important some time in the future if banks need to borrow; but for the last four years because of the easy money policy it seemed to be quite unnecessary to vary the bank rate of the United Kingdom, the United States or Canada; therefore, it may be left out of consideration for the time being.

Q. Yes, as a matter of fact, on the legal reserve minimum our banks have on deposit far more cash than they require to increase their bank deposits?—A. On the legal reserve; I would say that in fact a reserve of between 9 and 10 per cent is the proper one with which they should work.

Q. A proper one?—A. When parliament fixes a rate of 5 and the banks arbitrarily step in and say we have decided to raise that rate to 10, who controls the issue?—A. Parliament fixed the legal minimum. Parliament never said to the banks—you who have been operating in the past on about a 9 or 10 per cent basis, should reduce that to the legal minimum. No such thought was in their minds. There is another aspect to the matter, if the banks could operate on a reserve of 5 per cent it would mean that our earnings assets would be just that much less.

Q. As a matter of fact, what parliament had in its mind—and I happened to be very closely in touch with parliament at that time—was that there was

[Mr. Graham Ford Towers.]

going to be a reserve minimum produced that would permit the banks to expand with new investments so that we would have a general revival of prosperity in Canada?—A. Of course, they have expanded very greatly during the course of the last four years.

Q. Right. Are the banks borrowing legal tender cash from the Bank of Canada to-day?—A. No.

Q. Will you give me a statement of the bank balances; that is, each of the merchant banks' borrowings from the Bank of Canada since 1935?—A. I would ask you not to press that question, Mr. McGeer, because I think that it would be disclosing the business of a client in a way which might seriously prejudice the Bank of Canada's operations.

Mr. McGeer: All right.

Mr. Cleaver: Give us the yearly totals, there can be no objection to that.

Mr. Kinley: How about market transactions?

Mr. McGeer: I am coming to that in a minute.

By Mr. McGeer:

Q. When you say as the result of the easy money policy adopted by the Bank of Canada there has been no need for borrowing on the part of merchant banks and consequently no operation to influence the rate the Bank of Canada fixes for borrowing— —A. In so far as the bank rate is concerned. But we have influenced rates very greatly in other ways.

Q. I am talking about the bank rate. It is because you have supplied a sufficient amount of cash so that the banks have their reserve legal tender requirements for so many months in our existence without paying any interest—A. Excuse me, Mr. McGeer; we went over that point in detail either at the last meeting or the one before, and it shows in the record; we did increase their cash by buying additional assets for the most part additional securities.

Q. I am talking about the bank rate.—A. I am not talking about it, however.

Q. What was your revenue, your interest charges made to banks for the loan of Bank of Canada bills during the last three or four years?—A. Bank of Canada bills—of course, we don't loan the banks in that form; but speaking from memory I would say that the interest on amounts borrowed by banks in 1938 would be around $12,000.

Hon. Mr. Stevens: Might I interject?

Mr. McGeer: Yes.

By Hon. Mr. Stevens:

Q. Mr. Towers, you objected just now to stating what borrowings the individual banks have made from the Bank of Canada?—A. Yes.

Q. Well in their monthly forms there is a column showing advances from the Bank of Canada?—A. Yes.

Q. And it shows, of course, a blank. Well now, the fact that under the law that form is issued and they are bound to show it, what objection is there in disclosing it?—A. Would you not think, Mr. Stevens, that there is the place that it should be disclosed?

Q. Surely.—A. For example, suppose a bank borrowed for a period of a couple of weeks there is no provision in the law which would—

Q. This is a published return made to the Department of Finance. We would have to call Dr. Clarke on that.—A. Yes.

Q. I thought there might be some objection to getting it, but it is a matter of public record. What I am getting at is the law apparently anticipated that that sort of information was proper information to give to the public. That is the point I am drawing to your attention.—A. That is true.

By Mr. McGeer:

Q. We will get that from the Department of Finance through Dr. Clarke because it is a matter of public record. I will leave that. Then, I have this conclusion; that in so far as the bank rate of the Bank of Canada is concerned it is not operative as a factor of control at the present time?—A. Because of the fact that the monetary policy has been one of expansion, and interest rates, general interest rates, are very much below bank rate.

Q. Well, in any event, it is not a factor of control to-day?—A. No, neither in Canada, the United States, the United Kingdom nor in some other countries.

Q. Now, the other factors of control are in the open market operation; that is, buying and selling of securities?—A. Yes, or other assets.

Q. Or other assets? Now, when you buy securities you pay in Bank of Canada cash?—A. Yes.

Q. With the result that that Bank of Canada cash goes into the possession of the merchant banks and increases their reserves and their power to extend their bank deposits?—A. Yes.

Q. Now, when the banks have a surplus of cash reserves on deposit over and above their requirements——A. On deposit with us, that is.

Q. On deposit with the Bank of Canada?—A. Yes.

Q. And you sell securities, would not the result be an increase, a surplus reserve bank deposits of the merchant banks with the Bank of Canada?—A. Not when we sell. When we sell they reduce their reserves. When we buy it increases their reserves.

Q. I mean, I reversed it?—A. Oh yes, that is right.

Q. I made a mistake what I mean to say was when you buy you put cash out and it sooner or later finds its way into the possession of the merchant banks and increases their reserves of cash and gives them the power to increase their loans and investments by increasing their bank deposits.—A. They increase their loans or investment and that produces an increase in deposits.

Q. Now, when that condition exists, where banks have more cash to sell than they need to service their existing bank deposits, would not the result of that branch of your own marketing operation merely result in an increase of the deposit of Bank of Canada cash that the Bank of Canada held for merchant banks?—A. The operation, in the first instance, as you have pointed out, that is, the operation of buying additional securities, does increase the total of the chartered banks cash reserve. Suppose that before we do a certain operation their reserves were 10 per cent and that after the operation they increased to 11 per cent—I am making rather a large jump there, but I am just doing that for purposes of illustration. The reserves had been 10 per cent against deposits; they are now 11 per cent. In the ordinary course of events the banks will then look for fresh loans or investments and add to their assets in that form, increasing the deposit liabilities at the same time; so that by that process, while the sum total of cash remains the same, the ratio naturally changes; and as a result of their expanding operations the ratio will go back down again from 11 per cent to 10 per cent.

By Mr. Kinley:

Q. But that depends upon the ability of the industries of the country to absorb the money?—A. It depends on the ability of the banks to buy investments or to make loans.

Q. But they will not make loans unless they are sound?—A. No.

By Mr. McGeer:

Q. So that if they have got up to the point where they have got bank deposits to lend——A. Well, they do not lend their deposits, of course.

[Mr. Graham Ford Towers.]

Q. Well, that they can finance purchases by increasing their deposit liabilities?—A. Yes.

Q. To the public at large?—A. Yes.

Q. When they have got up to that point, then the further issue of Bank of Canada cash to increase their reserves will merely have the effect of increasing the deposit of cash with the Bank of Canada with no new activity in the way of increasing loaning?—A. You mean that the banks are at a point where they cannot find additional investments to buy or loans to make?

Q. Yes.—A. That would be the case. But it has never happened so far.

Q. I am informed—and I hear it everywhere on every day from banking sources—that the bankers have an abundance of money to lend?—A. Indeed they have.

Q. And that the reason why they are not lending it is that good borrowers are not available. When you have that situation— —A. That is why the banks have turned to investments.

Q. When you have that situation existing, then there is no advantage in increasing the bank cash reserves, because they have already got more than they can use?—A. The advantage during the last three or four years has been, as you say, not in the direction of enabling them to increase their loans on any scale, because they say they have not been able to find good borrowers. Therefore, what they have done is to increase their investments very greatly; and that has been a major factor in reducing the cost of public and private financing in this country during the last few years.

Mr. Cleaver: At a reduced interest rate.

By Mr. McGeer:

Q. If you issue new cash, the banks are in a position to buy more government bonds?—A. Or on occasion to make additional loans. For example, take the 1936-1938 period. You will find in 1936 the total security holdings of the banks were $1,331,000,000; that is the average during the year. I do not happen to have the December figure here at the moment. Excuse me, I have. In December, 1936, the security holdings of the banks were $1,384,000,000; their current public loans were $675,000,000. To-day the current public loans are $801,000,000, in increase of $126,000,000. During that period their securities have also increased to a certain extent.

By Mr. Cleaver:

Q. How much is the increase of securities over the same period?—A. The increase of securities is from $1,384,000,000 to $1,489,000,000—$105,000,000. Most of that increase has taken place in the first three months of this year. At December last the securities were $1,463,000,000; the loans at that time were $806,000,000. But it is the case that in the two-year period between December, 1936, and December, 1938, the increase in the chartered bank cash which took place was more used in the financing of additional loans than it was in the purchase of additional securities.

By Mr. McGeer:

Q. Then it started to fall?—A. Which started to fall?

Q. The loans?—A. No. The loans at the end of December were $806,000,000; at the end of March they were $801,000,000. That is, roughly, a seasonal movement.

Q. What I wanted to get at was this: Due to conditions of the general economic situation, the open market operation of buying is not effective in increasing bank loans for general economic developments in the private commerce and industry of the nation?—A. That is not what the record shows, Mr. McGeer, as I have just been quoting.

Q. What I suggest to you is this, that all of these loans could have been made— —A. May I say this, that if there had been no increase in the banks' cash reserve since December, 1936, it is probably the case—and I think certainly the case—that those loans would have been made in any event.

Q. Yes; that is, the actual issue of Bank of Canada cash was not the influencing factor?—A. Those loans would have been made in any event; but what would have happened in that case would have been that instead of the banks having bought some additional securities, they would actually have had to sell a fair amount of securities, to reduce their portfolios. That bank selling, as contrasted with such buying as they did—the difference will be between those two extremes, so far as the market is concerned—would, I should think, have had a distinct influence on interest rates on public and private obligations.

Q. I see.—A. Some people might say it actually would have been better—I am not necessarily one of them; I am not expressing any opinion—if interest rates on government and short-term obligations had gone up.

Q. It probably would have been better if the banks had taken some of their long-term securities?—A. They have got practically none.

Q. Practically no long-term securities at all?—A. No, practically none.

Q. In any event, it would merely have meant the transfer of the earnings of those securities to the earnings of somebody who would have exchanged a savings account deposit for that security, if they had gone to the public?—A. That is true. It would, of course, have added something to the difficulties of governments in financing; and governments would have had to pay somewhat more. There may be arguments on both sides as to the better policy.

The CHAIRMAN: Gentlemen, it is six o'clock. I should like to ask the opinion of the committee as to meeting to-morrow. Mr. Stevens and Mr. Jaques are willing to attend.

Mr. KINLEY: The house meets to-morrow morning and afternoon.

Mr. CLEAVER: Make it eleven o'clock.

Mr. JAQUES: That is agreeable to me.

The CHAIRMAN: If we can get a quorum, we shall meet to-morrow morning; those who want to attend the house can attend it. The house was meeting this afternoon.

Mr. MCGEER: I should like to have the privilege of completing my examination on that question of control at some later time.

The CHAIRMAN: We will finish it now.

Mr. KINLEY: Before we adjourn, I wish to say that Mr. McGeer and the social credit men, too, put up arguments which seemed to circle around what is known as "debt-free money". Here is a question that is being put up to us by people in the country. Suppose the Canadian National Railway wanted \$100,000,000 to-morrow, wanted to pay off a debt of \$100.000,000, and they came to you and said, "Here are our bonds. These are the bonds of the Canadian National Railways. You take them in the Bank of Canada and you issue your legals, which is interest free money, and pay up their bills on that money." I think it would be well if you could tell us at the next meeting what would happen if we tried to pay the Canadian National debt by depositing bonds with you and asking for good Canadian money to pay out.

Mr. TOWERS: A similar thing, I think, is on the record; but I should like to look at it and see whether, in the light of your question, what is already there should be expanded or whether perhaps I could refer back to it.

Mr. KINLEY: Yes. It is a question that is being asked.

Mr. TOWERS: It is a fascinating thought, as a matter of fact.

[Mr. Graham Ford Towers.]

By Mr. McGeer:

Q. Mr. Towers, I wonder if, in the light of the information which Mr. Stevens produced, you could not arrange through the Department of Finance to give us a statement of the borrowings of the banks as they had been returned to the Department of Finance since the Bank of Canada opened, with the interest that has been paid for such borrowings?—A. Well——

Q. I mean, I am just suggesting that you should arrange to get that statement.—A. What the government would have would be just those figures shown on the monthly return.

Q. The monthly return would be filed?—A. Yes.

Q. And the annual statement?—A. Yes.

Q. We have not got the facilities in this committee for doing that, so what I was suggesting was that you might arrange with the department to get us a statement.—A. We will do that ourselves.

The CHAIRMAN: We shall adjourn until to-morrow morning at eleven o'clock.

The committee adjourned at 6:05 p.m., to meet again on Saturday, May 6th, at 11 a.m.

APPENDIX "A"

ESTIMATE OF NEW COSTS ATTRIBUTABLE TO FORMATION OF BANK OF CANADA FOR YEAR 1938

Total charges			$1,750,522 28
Expense attributable to functions taken over from the Government:			
Previously performed by Currency Division and Assistant Receivers General throughout Canada—			
Cost of notes	$ 544,278 07		
Shipping charges	119,057 33		
	$ 663,335 40		
Other costs	365,830 13		
		$1,029,165 53	
Management of Public Debt Division		191,602 94	
			1,220,768 47
Expense directly attributable to new departments and directing executive of bank (excluding taxes)			439,845 60
Profits which could only have been obtained through operation of the new organization (this excludes interest on investments or advances to chartered banks)			243,184 76
Cost of new functions			$ 196,660 84

Ottawa, Canada, May 1st, 1939.

APPENDIX "B"

STATEMENT SHOWING DIVISION OF COST BETWEEN FUNCTIONS PREVIOUSLY PERFORMED BY THE GOVERNMENT, AND NEW FUNCTIONS BASED ON BANK'S PROFIT AND LOSS FOR 1938

Interest on investments, and advances to chartered banks (the latter amount is negligible)		$4,356,446 64
Expense attributable to functions taken over from the Government as per previous statement	$1,220,768 47	
Taxes	89,908 21	
Loss on silver bullion	135,740 18	
Sundry additional expense	3,494 53	
		1,449,911 39
		$2,906,535 25
Cost of new functions		196,660 84
Balance available for depreciation in assets, for reserves, dividends and payments to Government		$2,709,874 41

Ottawa, Canada, May 1st, 1939.

APPENDIX "C"

ESTIMATE OF EFFECT ON DOMINION GOVERNMENT COSTS ARISING FROM FORMATION OF BANK OF CANADA

Made in response to a question from Mr. Tucker (Minutes of Proceedings and Evidence p. 207)

New cost to Government		$3,450,409
Interest on 3 per cent bonds delivered to Bank of Canada May 1, 1935, $115,013,636.82 at 3% for 1 year	$3,450,409	
Deduct: Old Government cost transferred to Bank of Canada		1,074,954
Estimated year's cost printing and distributing Dominion notes including cost of operating Currency Division and Assistant Receivers General Offices	680,000	
Estimated year's cost of loans and interest branch	229,000	
1938 loss on silver bullion	135,740	
Proportion 1938 Pension Fund appropriation applicable to civil servants taken over	30,214	
Gross new cost to Government		$2,375,455
Gross profit Bank of Canada 1938	$2,550,046	
Less dividends paid to public	140,000	2,410,046
Reduction in net Government costs		$ 34,591

Ottawa, Canada, May 4th, 1939.

APPENDIX "D".

Correspondence exchanged between Mr. G. F. Towers and Mr. C. S. Walters, Controller of Finances for Ontario

Copy

BANK OF CANADA

OTTAWA, April 25th, 1939.

C. S. WALTERS, Esq.,
Controller of Finances,
Parliament Buildings,
Toronto, Ontario.

Dear Mr. WALTERS:

I notice that the Canadian Press Dispatch covering the meeting of the Public Accounts Committee of the Ontario Legislature reports you as having said:—

> In 1935 Graham Towers, Governor of the Bank of Canada, came to Toronto and in the presence of Mr. Nixon and Highways Minister T. B. McQuesten agreed to buy Ontario Treasury Bills. A week later, Mr. Walters said, Mr. Towers told him, "The Bank of Canada would never buy Ontario Treasury Bills except as an open market transaction."

I must assume that you have been incorrectly reported as the statement as it appears above is not true.

In the discussion which took place in May, 1935, I stated that if the Government of Ontario decided to ask the Bank of Canada to act as its banker and financial adviser—in other words, to perform services similar to those which we render the Dominion Government—I would be glad to lay any such proposal before our Board. I also pointed out that if we had no relationship of this character with the Government of Ontario our dealings in the securities of the province would naturally be determined by the necessities of our open market operations. No proposal that we should act as banker and financial advisor of the Province of Ontario has ever been made to us by the Provincial Government.

Will you please advise me by telegram whether I am right in assuming that your remarks were incorrectly reported.

Yours truly,

G. F. TOWERS.

Copy

ONTARIO OFFICE OF THE CONTROLLER OF FINANCES

TORONTO, April 26, 1939.

Dear Mr. TOWERS: Because of the pressure of work, I have been unable until to-day to even read your letter of April 25th, sent to me by Mr. H. G. Gammell, your Securities Representative here. For your information I quote evidence given before the Public Accounts Committee:—

By Hon. Mr. Nixon:

Q. Did the Bank of Canada ever buy any Ontario Treasury Bills?—A. No.

By Hon. Mr. Macaulay:

Q. Why do you not use the Bank of Canada in your financial operations?—A. We tried to once.

Q. Why did you not try it again?—A. I think the joint stock banks give just as good a service as the Bank of Canada.

Q. I thought that is what the Bank of Canada was set up to do.

The WITNESS: They agreed to do it once.

By Mr. Drew:

Q. When was that once?—A. In 1935 Mr. Graham Towers came here at the invitation of Mr. Hepburn and agreed to buy Province of Ontario Treasury Bills—(I have recited this before the Finance Committtee at Ottawa)—and Mr. Nixon was there, and Mr. McQuesten—and I said, "Before this gets down to just a social affair"—(Mr. Towers was going to lunch)—I said, " What about these Treasury Bills," and he said, " All right, I will send Henderson up next week," and Henderson came up next week, and he came and went, and the next week I knew Mr. Towers was in the city, and he asked me to come down to the Royal York and meet him, and I saw him, and he said that the Bank of Canada would never buy Treasury Bills off the Province of Ontario except as an ordinary open-market transaction.

Q. What date was that? I do not mean the date, what year was that?—A. I think it was in 1935.

Later on in my evidence I was asked if I had ever reopened the matter. The evidence is as follows:—

By Hon. Mr. Macaulay:

Q. You have never opened up the subject with Mr. Towers or the Bank of Canada since 1935?—A. No, but I have mentioned it to Mr. Dunning.

Q. What does he say?—A. He said that he did not interfere with the Bank of Canada at all.

Q. Well, they own it, do they not?—A. Yes, and the Government has always been over its central bank.

Q. You discussed it with Mr. Dunning and he said that he would not interfere with Mr. Towers' management of the Bank of Canada?—A. Yes.

Q. Did you discuss it later with Mr. Towers?—A. Just in a committee such as this.

Q. What view did Mr. Towers express?—A. Well, Mr. Towers always took the stand that I was mistaken and that he did not promise that he would buy the Treasury Bills.

Q. You thought that he had undertaken the——A. He did, and two Ministers of the Cabinet heard him—the Honourable Mr. Nixon and the Honourable Mr. McQuesten—in Mr. Hepburn's office.

Q. When he was here in June, 1935?—A. Yes, May or June.

Q. He denied that statement?—A. He said I misunderstood him.

In this connection let me say that I had no intention of mentioning the matter before the Public Accounts Committee until questions were put to me which led to the evidence that I gave.

Some facts in connection with this business stand like stone and I take this opportunity of mentioning them; they are as follows:

1. On May 4, 1935, I wrote you regarding Treasury Bills of the Province of Ontario as follows:—

Toronto, May 4, 1935.

DEAR SIR,—I am directed by the Honourable the Prime Minister and Provincial Treasurer to write you in regard to Treasury Bills of the Province of Ontario.

The Provincial Government is considering the advisability of offering for sale, Treasury Bills of six, twelve, eighteen and twenty-four months' currency and the Treasurer would like to be advised as to the possibility of selling Treasury Bills to the Bank of Canada and an indication of the rate of interest required by your Bank.

I shall be glad to hear from you in this matter and hope to be favoured with an early reply.

Yours faithfully,

(Sgd.) C. S. WALTERS,
Controller of Finances.

No reply in writing was received.

2. On May 8, 1935, I wrote to inform you that the Honourable the Prime Minister of Ontario confirmed the appointment to see you at his office here on Saturday, May 18, at 11 a.m., Daylight Saving Time. You acknowledged my letter on May 13.

3. On May 18, 1935, you kept the appointment, met the Prime Minister and some of his Cabinet and the writer in Mr. Hepburn's office here. When the matter of purchasing Treasury Bills was discussed you said that you would send your man Henderson up to interview me regarding the financial standing of the province and its budgetary position.

4. Shortly after the interview on May 18, 1935, Henderson attended at my office, Room No. 381, Parliament Buildings, and was given all the information he requested.

5. Not long after Mr. Henderson's visit you were in Toronto and telephoned me and asked me to call to see you at your room in the Royal York Hotel, which I did, when you informed me that the Bank of Canada would not buy the Treasury Bills of the Province of Ontario.

6. The Bank of Canada has not from that date up to the present time purchased from the Province of Ontario any Treasury Bills nor written the Treasurer of the Province one line to give any indication as to whether the policy of the Bank towards the Province of Ontario had been changed.

None of the above facts can be successfully challenged and they indicate the attitude of the Bank of Canada towards the premier Province of this country. Why the Bank persists in this attitude passes my comprehension.

In a modest way I have given some consideration to the functions and the responsibilities of a central bank and I submit for your consideration that the Bank of Canada should give leadership to the chartered banks and the financial institutions of this country during these trying times; the attitude of the Bank should be helpful and its relations with the provincial governments harmonious; the Bank should always be ready to give sympathetic consideration to matters touching the welfare of any and all provinces, not discriminating against the Province of Ontario, as has the Bank of Canada. After all, the people own the Bank of Canada and the Federal Government must in the final analysis take the responsibility for the policy of the Bank. True, the Bank of Canada, by statute, is clothed with wide powers and great authority, but whenever its policy runs counter to the best interests of the nation or of one of the provinces that make up the nation, the Government (which is always over the Bank of Canada) must exert its authority.

Surely it is not in the interest of this country as a whole that one province—especially the Province whose citizens pay in the final analysis nearly fifty per cent of the nation's taxes—should have to say to the world that the central Bank of Canada will not purchase its Treasury Bills or other obligations. As long as your Bank persists in this attitude, how can we expect to make a united

attack on the financial problems that press down upon us in times, the most critical that this country has ever witnessed?

Yours faithfully,

(Sgd.) C. S. WALTERS,
Controller of Finances.

G. F. TOWERS, Esquire,
Governor, Bank of Canada,
Ottawa, Canada.

MAY 4, 1939.

C. S. WALTERS, Esq.,
Controller of Finances,
Parliament Buildings,
Toronto.

DEAR MR. WALTERS,—

I have considered carefully your letter of April 26th and have again reviewed events following upon your letter of May 4, 1935. I find myself substantially in agreement with the remarks made in sections 1 to 6, commencing on page 3 of your letter, although sections 5 and 6 would convey a better understanding if you had pointed out that I had carefully explained the character of the relationship which we might have with the Province of Ontario, and that the responsibility for not pursuing that subject lay with the Provincial Government rather than with ourselves.

With the modifications just noted, I agree with your outline of events. In your outline you did not repeat the statement which appeared in your remarks to the Public Accounts Committee to the effect that in May of 1935 I had agreed on behalf of the Bank of Canada to buy Province of Ontario Treasury Bills and had later gone back on that agreement. This statement is not in accordance with the facts. You will recall that at the meeting of the Dominion-Provincial conference in Ottawa on December 9, 1936, you made the same allegation. I am attaching hereto an extract from the proceedings of the Dominion-Provincial Committee containing my reply to your statement. On that occasion I pointed out in the most definite terms that there had been no undertaking by us to buy Bills; in fact, no suggestion of an undertaking. You dropped the subject.

At the time of my visit to Toronto in May, 1935, I explained the character of a relationship which the Bank of Canada could have with Provinces, and pointed out that on the basis of such a relationship the Bank of Canada could perform for a provincial government much the same kind of services as it undertakes for the Dominion Government. The same subject was dealt with at the Dominion-Provincial conference in 1936, when you were present. It was mentioned in my annual address to shareholders in 1937; and I also discussed it at length with you when you had lunch with me in Toronto on April 23, 1938. It is impossible that there should be any misunderstanding in regard to our position. It is still our strongly held opinion that a relationship which is no closer than that maintained with other banks and investors would be of no permanent benefit to a province, and is not in accordance with the objects for which the Bank was created. In fact, if the Bank had casual loaning relationships of this kind with a province, or a number of provinces, there is every reason to believe that the interests of the public and its governments would be prejudiced rather than advanced.

From a reading of your letter it might be imagined that the Bank of Canada had been of no service to the Province of Ontario. I believe that in fact the monetary policy pursued during the last few years has benefited the Province

of Ontario more than any other entity in this country, with the possible exception of the Dominion Government; and I make that exception only because the Dominion's borrowing and refunding operations have been on a larger scale. Frequent references have been made to successful loan flotations of the Province of Ontario and to the progress which it has made in reducing interest charges on provincial debt. These results could not have been achieved unless the general interest rate structure had been a relatively low one. I do not suggest that the main function of a central bank is to ensure low interest rates. But it remains the case, nevertheless, that Ontario has had the advantage of such a policy for a number of years.

In the penultimate paragraph of your letter you say, in part, that:—

> The attitude of the Bank should be helpful, and its relations with the provincial governments harmonious; the Bank should always be ready to give sympathetic consideration to matters touching the welfare of any and all provinces, not discriminating against the Province of Ontario.

I agree with this statement, but consider that there is no basis for the suggestion subsequently made that the Bank has discriminated against the Province of Ontario or shown itself to be indifferent. On the contrary, we have taken the lead in maintaining touch with you, while your one and only suggestion to us for a business relationship was that made in May, 1935, when you invited us to buy some Treasury Bills.

In the ordinary course of events the Bank does not embark on controversy, I feel, however, that it is impossible for us to ignore a statement which conveys incomplete and inaccurate information to the Public Accounts Committee of a Provincial Legislature, when such a statement is made by a high civil servant occupying the responsible position of Deputy Provincial Treasurer. In these circumstances, I propose to send copies of our correspondence to the Chairman of the Public Accounts Committee, and request him to place these letters before the Committee at the first opportunity.

Yours truly,

(Sgd.) G. F. TOWERS.

EXTRACT FROM THE PERMANENT COMMITTEE ON FINANCIAL QUESTIONS OF THE DOMINION-PROVINCIAL CONFERENCE, OTTAWA, DECEMBER 9, 1936.

Mr. Towers: "I think it is very desirable indeed that the first point you brought up, Mr. Walters, should have been brought up in a gathering like this; and not only do I take it in good spirit, but I am very glad indeed that it has come forward. I very well remember two visits I paid to Toronto in May of 1935. On the occasion of the first meeting—and that is the time the original misunderstanding arose, when the various ministers were present in Mr. Hepburn's office—I did my best to outline the probable character of the relationship between the Central Bank and the province, along lines very similar to those which I have followed to-day, indicating that it would be very difficult, very undesirable, if the Bank were to come in on one occasion simply as a purchaser of some bills and then part company and have no continuing relationship which would really place it in the position of having that close financial contact which is desirable when the Central Bank goes into a thing at all. As I say, I did my best to explain that as clearly as I could. I remember that the Premier very kindly invited me to lunch, and as we got into the car to drive down to the King Edward I said to him it was rather a hard job of explanation, coming from the blue like that, and I felt that one of the Bank of Canada's greatest troubles would be to explain the necessities of its situation versus the provinces

in a way which would carry conviction to the provinces; that apparently what the Bank of Canada was saying was, "Look here, we can give you advice, but we cannot give you money." And I remember very well that Mr. Hepburn in his inimitable way, said: "Towers, there are two kinds of damn fools in the world—the fellow who gives advice, and the fellow who takes it." A remark like that sticks in your mind, and surely a remark like that could not have been occasioned unless the Premier was fully aware of the implications of the explanation that I had been giving. So, reassured by that amusing remark, I never had any doubt that there could have been a misunderstanding.

Subsequently someone went up from the Bank and had a look at the figures, and then on the final occasion, on coming up to see Mr. Hepburn by arrangement, I learned that he had been detained, and Mr. Walters and Mr. Nixon very kindly came down to the hotel, as he says. All I was able to do then was to rehearse what I had said previously, namely, that we were open to a proposition for a continuing relationship. We cannot be in the position of inviting it or apparently urging provinces to make use of our services, but I indicated, in the best fashion I knew how, that such a proposition would receive very careful consideration, but that on the basis of a temporary transaction—I do not like to call it a hit-and-miss affair—there was really no reason for the Central Bank to come into the picture.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 13

SATURDAY, MAY 6, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

Saturday, May 6, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Deachman, Donnelly, Dubuc, Fontaine, Jaques, Kinley, Lacroix (*Beauce*), Landeryou, Moore, Ross (*St. Paul's*), Stevens, Taylor (Nanaimo), Tucker, Ward.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Examination of Mr. Towers was continued.

Mr. Towers filed statements in answer to questions asked at the last sitting by Mr. McGeer and Mr. Kinley. It was ordered that these statements be incorporated in this day's evidence.

At 1.10 p.m. the Committee adjourned until Monday, May 8, at 11 o'clock a.m., with the understanding that Mr. Towers would then be examined by Mr. Deachman followed by Mr. Jaques.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons

Room 277

May 6, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The Chairman: Gentlemen, I see a quorum. The Governor of the Bank of Canada is here. Mr. Stevens, you have some questions.

Hon. Mr. Stevens: Well, Mr. Chairman, I may say that I have been sitting here patiently for quite a long time listening to the examination of Mr. Towers and appreciating at the same time the great patience and courtesy with which he answered all the very difficult and complex questions that have been directed to him, and I would like to assure Mr. Towers that in the questions I am about to ask I do wish to avoid putting him in the awkward position of doing other than exercising his recognized functions as the Governor of the Bank of Canada. And I would like also to lay this down, if you will keep it in mind as the theme, shall I say, of any questions I ask; and that is, the adaptation of our existing machinery for the handling of credit and monetary matters to the new and present day economic conditions. That is the thought in my mind, so that may help Mr. Towers perhaps to understand the drift of the questions I ask; and I assure him of this, that I am not seeking in any of these questions to lead him up any blind alley. I am really asking them in a very sincere way.

By Hon. Mr. Stevens:

Q. As a basis for what I shall later ask might I just carry Mr. Towers back a day or two and remind him of admissions which I think will be agreed to without any difficulty. Mr. Towers, you agreed the other day, I think, that conditions in Canada and the United States were far from satisfactory?—A. Yes.

Q. I think we can lay that down, and I gather also from the answers that you gave that you take the position that from 1890 to 1929 generally speaking might be described as a period that favoured the debtor class?—A. Yes. It may have been a few years after 1890, but roughly that.

Q. I am merely speaking in general terms.—A. Yes.

Q. And in the period from 1929 to the present, 1939, in a general way it has been adverse to the debtor class?—A. Yes.

Q. Would you agree that the swing to the adverse position of the debtor class has now gone too far?—A. I think it was generally recognized that it had gone much too far at the depth of the depression and the low point of the price levels in various countries. That thought was obviously in the minds of those who were at the conference here in Ottawa in 1932 and at the world economic conference the year after; and that the damage has been fully remedied, so to speak, as yet, I don't think anyone feels that it has.

Q. No. I think we could probably get along better if we could agree that to-day conditions are such as bear too heavily on the debtor classes?—A. Yes, and perhaps I might add there that in speaking of the position of the debtor class both in the earlier years which we mentioned and in the later years, I have particularly in mind the countries producing primary materials and food stuffs.

Q. Suppose we then limit it to Canada?—A. Yes.

Q. Then, that position I think you would agree to?—A. Yes.

Q. My next question is really a very broad general one. Is there any action that we can take through the agency of the Bank of Canada as a, shall I say, sort of governor of the monetary system that would tend to equalize conditions so as to restore normalcy, economic normalcy?—A. To the extent that monetary factors were responsible for the low level of prices, an easy money policy should help to remedy the situation. If, however, the major cause of the trouble is an insufficiency of demand for these major products relative to the supply, then monetary action will probably be ineffective. I will eliminate the "probably"—it will have no effect.

Q. Would you agree that there is still much that can be done within the monetary realm to assist in restoring a normal condition?—A. In respect to the low price level of many major primary commodities, I do not see that monetary action will have any direct effect on the price level of those commodities, that is monetary action in this country. It is true that to the extent that monetary action enables or assists the adjustment of debt burdens, it may be helpful in that way; not helpful in the way of raising prices of these commodities, but helpful in the way of bringing the actual burden of debt into better relationship with the price level.

Q. Supposing that be accepted as a prime statement, would not that have the tendency of increasing conditions of deflation? Would not that have the tendency of lowering say the cost of money but leaving prices at the present low level, and generally have a tendency to depress conditions rather than assist them?—A. I do not think that monetary policy will affect the price of those particular commodities one way or the other, but if it does mean that, less of a reduced return has to go for debt purposes, then a portion of the damage is remedied, but a portion only.

Q. Is there any action in your opinion that can be taken by the Bank of Canada in co-operation with commercial banks which would extend desirable industrial development?—A. There again it is a question of an ample supply of credit being available. The next step is to have use made of that credit.

Q. Yes, I am coming to that.—A. The monetary authorities can only take the first step, the second must be taken by people who see opportunities for employing the money.

Q. I am going to interject a question here which may not seem to bear directly on the matter we have been considering, but it has some effect anyway. Would you consider it advisable to increase the issue by the government of treasury bills; that is, making a larger use of the treasury bill method?—A. No, I do not think that would serve any purpose. The amount presently issued is $155,000,000. While figures are not published which show exactly the distribution of these bills, that is those which are in the hands of banks and the general public, and those in the hands of the Bank of Canada, it has always been the case that out of the total issue the Bank of Canada has been a substantial holder. If the total amount was to be greatly increased I would expect to see a marked change in the cost, because I think the banks and the public have pretty well all the bills they want at present rates.

Q. Well, you of course know that in Great Britain there are something over eight hundred million pounds of treasury bills?—A. As a matter of fact, a very much smaller amount than that in the market. Many of the bills are in government departments, as a matter of fact.

Q. Yes, I understand.—A. I could get, I think, not absolutely correct figures but fairly good guesses in regard to the amount which is in the hands of the market as a whole, excluding the Bank of England and government departments.

Q. Supposing you include only those in government departments, can you give an estimate of the amount outstanding?—A. I can try to do that.

[Mr. Graham Ford Towers.]

Q. You have not it before you?—A. No, and as a matter of fact I shall have to rely on guesses made by the *London Economist* or some other publication.

Q. I am not very particular about it, but just before we leave that, the amount that is held, or the treasury bills held by departments, which was frequently referred to; how are they held and why, by the departments; what is the nature of that transaction?—A. Well, when the *Economist* or newspapers refer to departments they usually include the issue department of the Bank of England, but there are other departments which have been given certain appropriations, which are supplied with cash which they don't need to use at that particular time, and instead of holding it as bank balances they buy treasury bills.

Q. That is a system we do not follow in this country at all?—A. No, and I am not speaking by the book, so to speak; but it may be that the unemployment fund at times holds bills and so on and so forth.

Q. Well, without having the figures before you— A. And, of course, the English exchange fund is an important factor in respect to bill holdings.

Q. Quite so, but without having the figures before you, would you consider that Canada with $155,000,000 in treasury bills outstanding had an amount comparable to that used in Great Britain?—A. Probably not comparable on a per capita basis. I think, having in mind the breadth of the London market and the amount of foreign funds which even now seek employment there, that it would be comparable.

Q. But you do hold the view that we have issued fairly well up to the point of saturation of treasury bills?—A. Pretty well, yes. One should think of them from two points of view. The first one is as a second line cash reserve for the banks. I think at present rates that the demand from that point of view is pretty well filled. I think it is the case that the government, if it so desired, could increase the amount, but I should think only by affecting the cost fairly materially.

Q. Do you think it is possible to develop a bill market in Canada?—A. A bill market, of course, has two connotations: One, commercial bills, bankers acceptances and so forth.

Q. Quite so.—A. And the other, government treasury bills.

Q. Quite so.—A. As regards the commercial end of it, I do not see any probabilities of developing such a market in Canada in the visible future. As a matter of fact, that market has almost disappeared in so far as London is concerned, and the discount market is surviving on government treasury bills. So far as the extension of the government treasury bill market is concerned—the development of interest in it by people other than banks—I should think that such interest would develop if the rates were higher.

Q. When you say "higher," have you in mind any point to which they might go where they would induce the extension of the treasury bill market?—A. Well, other things being equal—which they very seldom are—I would say that at the present time a rate of 1 per cent would attract quite a few other people into them.

Q. Yes?—A. But if other rates, including bank deposit rates, had gone up in the interval, then the effect of 1 per cent treasury bills would not be so great. But, as matters stand, it is generally the case that those other than banks or ourselves may hold from eight to twenty million dollars of bills, the latter figure being not usual and distinctly high. Even at present levels there is what you might call a modest interest in Dominion bills.

Q. Regarding the amount or the quantity of currency in the hands of the public—I am not talking now about this money as it has been so commonly referred to in the committee, but I am talking about currency in the hands of the public—is there any arbitrary method adopted by the Bank of Canada or the commercial banks that determines the quantity of money that should be in circulation in the hands of the public?—A. No. That depends purely on the demands of the public.

Q. You are aware, I am sure, that Canada has a smaller per capita amount of currency in the hands of the public than has either the United States, Great Britain and, I think, Australia?—A. Yes. The figures that I have here showing the currency—that is notes and coin—in the hands of the public in various countries as of December 31 last per capita show: Canada, $21; Australia, $26; United States, $42; and United Kingdom, $44.

Q. We shall take the United States, the United Kingdom and Canada because I think they are probably more comparable than any others. I am using this question without desiring to go into very great detail, but to illustrate a broad principle. If United States uses $42 per capita and Great Britain $41, I think you said— —A. $44.

Q. $44; and Canada has only $21, does it not occur to you that there may be there some very definite reason for perhaps part of the cause of the depression in Canada?—A. I think not in that sense, because I think that the amount of notes in the hands of the public is a result of various things and not the cause of any thing. For example, take the United States where it is $42 per capita. It is true that variations in volume of business and in level of prices will cause changes; but it is those things which cause the change in the note circulation rather than the note circulation causing the change in business.

Q. Yes?—A. Again, the lack of local banking facilities makes a material difference. Furthermore, a desire on the part of foreigners to hold notes of a certain country will naturally cause an increase in the circulation. The United States, so far as I know, have never been able to figure out how many of their notes are in use outside of their own boundaries, but the amount is undoubtedly substantial; and in recent months, of course, has been increasing quite markedly. The demand for United States bills in Europe now is large and the business of selling them is being done on a great scale; and the amount of notes of the United Kingdom which would be found in hoards on the continent is also very large.

Q. But if you go back eight years or more, you will find virtually the same ratio of difference between Canada, Great Britain and the United States; so that the point you make about the demand now, because of disturbed conditions, for United States currency and sterling would not apply to the figure of, say, eight or ten years ago?—A. I would have to look up pre-1929 figures. I think there has been a material difference in the United States.

Hon. Mr. Stevens: I have the figures here going back to 1921. You spoke of 1928 or 1929. The figures for the per capita circulation in the hands of the public in dollars in the United States are as follows:—

1921	34.53
1922	33.32
1923	34.76
1924	34.68
1925	33.40
1926	33.82
1927	33.76
1928	32.93
1929	31.50
1930	29.35
1931	30.88
1932	38.60
1933	40.06
1934	36.74
1935	36.39
1936	40.85
1937	41.77

[Mr. Graham Ford Towers.]

Mr. TUCKER: That is the United States?

Hon. Mr. STEVENS: That is the United States. For Great Britain, similar figures for the same period are as follows:—

1921	42.9
1922	40.0
1923	38.9
1924	38.5
1925	37.2
1926	36.5
1927	35.9
1928	36.1
1929	35.9
1930	35.1
1931	34.1
1932	33.8
1933	33.6
1934	34.1
1935	35.8
1936	38.6
1937	42.8

For Canada similar figures for the same period are as follows:—

1921	22.27
1922	19.74
1923	20.48
1924	22.24
1925	21.53
1926	21.64
1927	21.62
1928	21.78
1929	21.73
1930	19.55
1931	17.71
1932	16.81
1933	16.60
1934	16.96
1935	17.72
1936	18.87
1937	20.44

By Hon. Mr. Stevens:

Q. It is clear that afte• that period there was a very sharp differential between the amount of currency in circulation in the hands of the public in the United States, Canada and Great Britain. Let me now pursue that in this way. I think you said in your evidence that when the cash reserve rose above 10 per cent it induced the banks to increase loans?—A. And investments.

Q. Yes. I will come to the differential in a moment. If currency in the hands of the public were increased, the excess would tend to return to the banks, would it not?—A. Yes.

Q. I mean, that is very often the reason given for not increasing circulation—that all it would do is flow back to the banks. You would agree with that, Mr. Towers, would you?—A. I think that you might say that that is one of the things which is mentioned as a sequence of events which would follow from increasing the amount in the hands of the public.

Q. The term "sequence or events" is a little obscure, is it not? Is it not a matter of fact—shall I say a matter of experience—that the increase of

currency does result in the situation that those who receive it deposit it in the banks?—A. Oh, yes.

Q. And thus results in an accumulation of currency in the banks?—A. Yes.

Q. Would you agree that such a condition would result in putting pressure on the banks to extend their loans?—A. And investments, yes.

Q. It would have the tendency of a natural pressure?—A. Yes.

Q. On the banks to extend their loans?—A. Just the same as the pressure which they faced in the last four to five years through the increase in their cash reserves.

Q. The next question is one which I should not like to have misunderstood. I want to make it clear that I am not critical in what I am asking. I am seeking, shall I say, to establish facts.—A. Quite so.

Q. Would it be unfair to say that in the last ten years or more—say fifteen years—the banking system of Canada has rather grown into the position where they sit back and wait for requests, for loans rather than being the sellers of credit, if I may use that term?—A. I do not think it is possible to express a specific, what one might call 100 per cent opinion on that because it really involves an answer to this question: Have all branch managers been active enough in encouraging borrowers?

Q. You very kindly opened the door, shall I say, to a question that I would have rather hesitated to ask. I scarcely know how to put it, but without desiring to give offence shall we put it this way: Years ago—say twenty, twenty-five or thirty years ago—many bank managers would make loans on the personal character of the borrower to a greater extent than they do to-day. Would you agree with that?—A. I do not know whether I could or not.

Q. Let us put it another way; I do not want to ask you anything that is unreasonable. Would you consider it a fair statement to say that banks are today demanding collateral credit to a larger degree than they were, say, twenty-five or thirty-years ago?—A. Again I am handicapped there because I was not in the midst of it twenty-five or thirty years ago.

Q. Well, I had a lot of experience myself, not on the banking end, but on the borrowing end. Let me put this question to you then, Mr. Towers: Have you any record in the Bank of Canada, or is there to your knowledge records available of the amount of of collateral that the banks hold against commercial loans?—A. No, there is not, and I do not know any way of making such a thing up effectively.

Q. Would you think it a desirable thing to add to the monthly bank statements another column to the large list that are already there which would cause them to disclose the amount of collateral loans held against borrowings?—A. I do not think it would tell much, Mr. Stevens, and, of course, it would involve an enormous volume of work.

Q. Suppose we take a hypothetical position in this. If, for instance—I am not saying that this is the case—the banks are exacting a large amount of collateral, say, three or four times the amount of the loan, it would have a tendency to tie up the ordinary commercial credit of the country, would it not?—A. Yes, although I think the cases where you find that collateral is insisted upon in anything like that margin are quite rare, and that very few people could afford it.

Q. I am making no statement on it; that is a hypothetical question. Let me put another one. This is not hypothetical, it is practical. Would it be within your powers and your rights as governor of the Bank of Canada to ascertain just to what extent collateral security is to-day held against borrowings by commercial and industrial firms?—A. I think it would be very difficult to draw anything from that, Mr. Stevens. It seems to me that the situation can be described in this way: There is no question but that the banks are terribly keen to get additional loans. It is their livelihood to do so, and they badly need

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that livelihood; therefore nothing is lacking in respect to the urgent desire to make loans. Well, if they do not add to their loans, is that in any sense their fault? That is really the point which is the subject matter of our discussion. Do the banks as a whole, or do their managers, not show sufficient intelligence in the appraisal of what one might call a reasonable risk? Are they too timorous in that respect? That will be a question of intelligence in appraisal of the risk, and also the atmosphere, so to speak, in which the thing is approached. If one is feeling brave, the appraisal of the risk is likely to be more favourable than if one is feeling naturally—

Q. Jittery?—A. —timorous and jittery. In times when banks are making large profits, which by definition are times of some prosperity or, if the worst comes to the worst, booms, there may be a tendency to approach the problem we are mentioning with greater courage, because if there are certain bad loans, here and there, there are earnings to look after them. Obviously, that kind of thing can be overdone, and I do not suggest there is ever justification for rash boldness. But during times of very lean profits there would be a tendency to fear risks of loss to a greater extent than if profits were more satisfactory.

Q. I think, Mr. Towers, you have put your finger on perhaps the crux of our whole trouble at the present time. The banks do claim, as a matter of fact, that they have an abundance of money or facilities, shall I say, for making loans, but that desirable—they use the word "desirable"— —A. Yes.

Q. —desirable loans are not available. I wonder if I could digress to put this situation to you, and again not in a critical way but rather to see if we cannot find our way out of this dilemma. In 1929 or 1930, at that period of the opening of the depression, there were a large number of saw-mills in eastern Canada. When the slump came and the falling off in building, and so on, they found themselves with considerable inventories and large loans, most of them from the banks. Now, without criticizing the banks or saying that their action was onerous or otherwise the fact was there was some pressure put on them to dispose of inventories and liquidate bank loans?—A. That is true.

Q. Now, it is also true, I think you will agree—at least, I happen to know it is and I think probably it can be accepted—that many of these concerns were, under this pressure, forced to sell their inventories, there being no strong market, at very low prices?—A. Well, I can only speak from my own experience and, in the particular field you mention it was a very extensive experience and a very intimate one. After the smoke all cleared away I cannot recall any case of a customer who said to me, "If only we had held over our stocks we would have been better off."

Q. Well, that may be true, but the period was a pretty long one for any factor of that kind to enter in. But the point I am making is that they were forced to liquidate and they did liquidate at low prices, very low prices. Then through the activity of the government of the country markets were improved and a demand came for lumber. These saw-mill institutions found themselves without funds that would bridge the gap between the taking of logs out of the bush, the manufacturing of the lumber and the delivery of them to the new market which was open to them.—A. I had not realized that. In the various cases that I am thinking of, and I can only speak from my own experience, the various concerns who had liquidated their stocks in 1930 and 1931 were rather glad of it by 1932 because then they could go in and cut fresh long lumber on the basis of a very low cost of operation, and could then profit, and did profit, from the improved demand and rising prices which came, speaking from memory, in time to absorb the 1932 cut. In those cases that I am speaking of, the cut, I think in 1932 and certainly in 1933 and 1934, was stepped up very materially from the preceding years and operators were able to get the funds to do that. I do not think that the demand for Canadian lumber in those years was to any major extent unsatisfied by reason of lack of supply.

Q. No, there was no building going on to any extent, but it was the export business.—A. The improvement in the lumber market, first of all, came mainly from the British market.

Q. However, I do not wish to get into a side track. What I wanted to get at was this: That was a case where the banks ought to have been, shall I say, fairly generous in their attitude towards those saw-mill companies?—A. When the tide turned, you mean?

Q. Yes.—A. Yes.

Q. That is, in spite of the fact that their collateral in the form of inventory was depleted the banks ought to have, under those circumstances, shall I say, waived the strictest rules of collateral?—A. I think they did in a great many cases. Undoubtedly, there were some operators who were wiped out so completely in the preceding period that they would have found it difficult to secure fresh resources to resume business on the scale they would have liked to have done.

Q. Of course. I will make this as an assertion. I know of some that were forced to go to the United States banks in towns across the border and get their funds for the restoration of their business. I use that illustration, Mr. Towers, for this purpose: I do believe that the Bank of Canada co-operating with the commercial banks should watch a situation of that kind and should extend themselves to restoration in a condition of that kind.—A. There were some cases, I think, of operators going to United States banks at that time. I am thinking of one or two cases where they were badly tied up with Canadian banks and were engaged in a very vigorous quarrel with Canadian banks. They therefore thought it would be best to finance their new operations by putting them into separate concerns and obtaining finances from United States banks. That is what you might call a question of personalities and personal difficulties entering into the situation, rather than something related to the general principles of banking.

Q. I shall not pursue that further, but you will agree that such a condition is one in which there should be close co-operation between the ordinary commercial banks and the Bank of Canada to see that a field of that kind is served. —A. Co-operation of that character, I suppose, can only develop over a period of years. For example, if one heard that there was a very considerable need for credit unfulfilled, and it seemed on examination of specific cases that the risks involved were ones which banks could reasonably be expected to take, then I think that would be a fair subject for discussion between the Bank of Canada and some of the individual banks.

Q. Just on that point, is it a fair thing to say that many commercial concerns, industrial and otherwise, have as a result of the depression found themselves after several years of depression in a position where they did not have collateral that would constitute satisfactory collateral to a bank for an advance?—A. Or were not in a position as a going concern which the bank thought enabled it to make general advances.

Q. That is keeping in mind what you said a moment ago that in times of depression the average banking institution naturally is a little more cautious than in times of activity. Now, having that in mind, does not the position of the commercial borrower, industrial or otherwise, amount to one of a stalemate where he cannot break away from it; he must either drift into complete bankruptcy and go out of business, which is really what has happened with a great many, or he must find some other way of getting money? And is it not just in that field that we might work out, shall I say, some new method of adapting our machinery—using my own phraseology—of adapting our banking machinery to meet our requirements. Is there not a field there that might be occupied?

Mr. DEACHMAN: Is that not on account of the booms?

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Hon. Mr. STEVENS: I am trying to deal with what is the case.

Mr. TOWERS: I think in the field you mention, first of all, there is the field of loans which do not carry more than a reasonable business risk and which you would expect the banks to supply. Then there is a further field of loans which are somewhat more risky than normal. If there was something to come and go on, with a fair spirit of courage, those two might be supplied by the banks. It is in the second category that there is a special question of courage and judgment. Then one can go into still another section where loans are obviously not suitable bank loans. Making such loans would really mean that one was going into the business and taking all the business risks. There the capital of an individual or his ability to obtain equity money is the vital factor. Take the case of a lumber operator such as you mentioned. He probably had a mill, he may have had a couple of portable mills, and he could obtain a licence to cut a certain limit and he felt in August or September that the outlook for the next season was such that if he could take out one million feet he would do pretty well on it. But he did not have any cash or supplies, he just had his experience and his machinery. If the bank supplied the entire amount of cash required for the payment of wages and supplies and later on the sawing of the lumber in the following spring, and if he had not run into any trouble on account of weather or other reasons, and the market the following spring was all right, everything would be all right. But if anything went wrong the full loss would fall on the bank; he had nothing to contribute to any such loss.

By Hon. Mr. Stevens:

Q. Is there anything that the Bank of Canada, in co-operation with the banking system, can do to serve just such a contingency as that?—A. In that case, what you need is a supply of equity money. Whether that can or should come from public sources, I do not know.

Q. There is a need for it, and there is not, apparently, much of that equity money available. What I am trying to get is, surely there must be something we can do as a country, with this great machinery we have, banking and financial, that can be so organized as to serve such a purpose?—A. It may be the case, of course, that in the circumstances which you mention, those who still have certain resources of their own left will command the additional credit, that they will increase their operations and do the business, leaving the ones who cannot command the necessary resources without business. In that case, the sum total of the business done may be the same, but its distribution may be different.

Q. I think we have to admit it is not, Mr. Towers, because using the illustration Mr. McGeer gave, we know that we have hundreds of thousands out of work who are willing to work; we know that we have resources and so on. Now, we are not bringing these two together. I am not seeking to go back over the ground that he covered, but in its more minute and practical way it seems to me there is a great deal that can be done; and what I wish, of course—and you have reasonably well answered it—is if not to elucidate from you a statement of what can be done, at least we may get before you the desirability of some co-operation.—A. There have been attempts elsewhere to go into that field where there is more than the normal banking risk. I can thing of an example in the United States where one or more organizations were set up for that purpose to take on loans that were not bad from the start but which carried a good deal more than the normal banking risk. They have not found in the United States that they can loan very much on that basis. I think what they have found is that the needs more often than not are ones calling for pure risk of equity capital. I think that in the United States they have found themselves handicapped by an inability in various cases to induce individuals to put up that pure equity risk.

Q. But you will admit—Mr. Lacroix wants to ask a question—that there is a need there and we should try and find some method for supplying that need?—A.That courage for risk taking on the part of individuals can be increased, I would certainly admit, but at the same time, I have sympathy with individuals who in these stirring days are rather frightened to take those risks.

By Mr. Lacroix:

Q. Don't you believe that in 1929 and 1930, up to 1933, the merchant banks of Canada forced too much liquidation of lumber in eastern Canada, obliging the lumber merchants to sell their lumber at liquidation prices in order to turn the lumber into cash?—A. That would be a question of judgment which one could only fairly comment on, I should think, by an examination of specific cases. I do not think that any general statement would be very illuminating.

Q. What do you think of the facts that from 1929 to 1933 these things took place: in 1929 the merchant banks of Canada advanced to the lumber manufacturers in eastern Canada $25 per thousand feet to manufacture lumber. In 1930 and 1931 they decided that these lumber merchants should liquidate their stock which amounted to over half a billion feet in eastern Canada. This was in the hands of two or three banks. The lumber merchants then started liquidating their stock at $25. It dropped to $20, $15, $12 and $10. When they stopped liquidating a fair sized bank in eastern Canada said that the lumber would go lower than $10. Don't you think that the fact that the half-billion feet of lumber in eastern Canada was liquidated at that price in the eastern market and the United States market and so forth, had brought the price down to a point which we still suffer from to-day?—A. I do not think anyone can make a definite statement on that, Mr. Lacroix.

Q. I think I will make one. I am a witness to it. I have met bankers lately in the Boston office who said that in 1930 their advances on a certain amount of lumber were over $20, and they did not care a damn—pardon me—about the accounts. They wanted their money, and the manufacturer was under the obligation of meeting those prices. The prices started to go down in 1930 from $30, the market price at that time to $25 and $20 in 1931. In 1932 the price was as low as $15, in 1933 as low as $10, and to-day we are still suffering from that forced liquidation imposed upon the lumber merchants by the merchant banks of Canada. I make that statement. The price started to go up after 1933, a little after the bulk of the liquidation was over, and to-day we have succeeded in obtaining a price of $24, which is still $5 less than the price in 1926 or 1924, and it is still selling at a loss to the manufacturer. I want to say to the merchant banks of Canada that this forced liquidation has totally ruined the Canadian industry in eastern Canada. I think that some of the members here are witnesses to that. This was forced on the American market of eastern Canada, and forced by Canadian banks, and it has put the lumber business of eastern Canada in such a state of affairs that the lumber merchants could not restart. Those who have restarted in 1933 were those who were able to obtain stumpage from the government for practically nothing. Different provinces reduced their stumpage prices from $2.60 to as low as $1 to try to restart the business. The little man in the bush was earning not much more than 50 cents in 1933. I understand your statement to be that in 1933 some were able to make a little profit. I do not call that a profit. I call that speculation with the provinces' timber rights and labour starvation.

Mr. LANDERYOU: Slavery.

By Hon. Mr. Stevens:

Q. However, this will illustrate the point, Mr. Towers, namely that there is a field in connection with the relation of industry to finance which requires study in the light of modern conditions, and what I am hoping is that before

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we complete the sessions of this committee we may arrive at something useful and practical in that respect. Now, let me refer very briefly to a question that was inspired by your suggestion. Have you any record, and if you have not it with you can you supply the record, indicating the losses from Canadian banks failures as compared with losses and failures in the American system and the British system?—A. Is there any such comparable—

Q. I think that an attempt could be made to get such figures.—A. Yes. Over what period would you suggest?

Q. Well, I imagine to be useful at all it ought to cover somewhere beyond 1929 or 1928 or 1927.—A. Losses to depositors?

Q. Yes.—A. Yes. Suppose we take it from 1926 to 1936?

Q. That would be all right. You would agree, Mr. Towers—I think I gathered this from your statement yesterday—that modern markets have been dislocated and unbalanced. I think there is no question about that?—A. Yes.

Q. And that the relationship of production to consumption is presently out of balance?—A. In certain commodities, yes.

Q. I should say capacity of production.—A. Yes; in some commodities the relation of production to consumption is out of balance, and in others both production and consumption are low.

Q. Now, would you agree that the creation of new purchasing power is desirable; never mind how, for the moment?—A. Undoubtedly.

Q. Would you also agree that it is possible to plan for and develop such a proposal? Let me finish the question in this way, because I anticipate what will run through your mind. Would you also agree that it is possible to plan for and develop such a proposal or is it to be left to the *ipse dixit* of shall I say so-called economic laws?—A. Theoretically one must always say, I think, that it is possible to plan. Of course, you have to recognize that in making plans you have to make certain assumptions as well. The enormous difficulty nowadays is to know what the estimates for three or four, or five or ten years from now should be. Must one assume a continuation of economic nationalism or not; it is absolutely vital to know that.

Q. Well, again I do not wish to digress into side lines. The economic nationalism is there?—A. Yes.

Q. It is not something that we can choose whether it is or not; it is there.—A. Yes.

Q. Now, and I think this is a very apt interjection, should not we seek to adapt ourselves in this country to these new factors?—A. If you assume that economic nationalism—and by that I mean this semi-war state in which we find ourselves—is here for good, then you have to do that. But of course, Mr. Stevens, I am thinking there of plans which would involve a change of vocation of large classes of the Canadian people.

Q. That may be necessary?—A. It may be, if the present world state of affairs continues. In fact, it would be if the present world state of affairs is here to stay; but, of course, it does involve enormous responsibility to go ahead with inevitably very expensive revamping of our economic structure on that assumption. If the assumption is wrong in the course of a few years time, then, of course, the changes which one has made in the interval are largely wasted ones.

Q. Mr. Towers, I don't think I could accuse you of holding the view that the thing to do is sit pat and wait for the turn of the wheel; that is not what you are implying, is it?—A. No. I would say that in any way which one reasonably could that a start might be made in the sense in which you are speaking without grandiose attempts to revamp—I do not use "grandiose" in a bad sense. I should have used another word, I should say "major plans" to revamp the Canadian economy. But major changes based on the present state of world affairs would represent an effort and a responsibility which would be awfully difficult to take, and involve I am afraid, too, the acceptance of a lower standard of living here, which we hope will be unnecessary.

Q. Remember, Mr. Towers, I made as a premise for this line of questioning the adaptation of our existing machinery, financial machinery, to the new economic conditions with which we are confronted nowadays, consisting of unemployment, industrial stagnation, shortage of purchasing power, and so on. Now, that is all I have in mind. Let us proceed. Would it be wise to increase the gold reserves and so increase the available cash reserves and thus stimulate the loaning of money to industry?—A. It would not be necessary at this stage for that purpose to increase the gold reserves, because there is considerable leeway apart from any increase in those reserves; and that policy, of course, is one which has been followed during the last four years; that is, of adding to the amount of bank cash reserves here, with the result that banks have been under constant pressure to expand these five years past. The amount of increase in commercial loans from their low level in 1936—or, whenever it was —has been by no means large and therefore the major portion of the expansion has had to take place in the form of increases in investments.

Q. Well, now, referring to the expansion in commercial loans. You recall the figures that I used in a speech in the house. I would like just to put these figures before you, because I think they are a vital factor in this whole business. In 1926 commercial loans were $983,000,000; in 1928 they ran up to $1,227,000,000; in 1931 they were $1,141,000,000; in 1936 they were $707,000,000; and in 1938, December last, they were $731,000,000. They have gone up since. —A. I have for December last $806,000,000.

Q. Well, it may be that I am not quite up to date there, it may be that I took the November figure. However, you say it was $800,000,000 in December? —A. Yes.

Q. Now, the corresponding figures for investment in government bonds are these: in 1926, $324,000,000; in 1928, $334,000,000; in 1931, $396,000,000; in 1936, $1,097,000,000; in 1938, $1,137,000,000; and I think in addition to that $1,137,000,000, $155,000,000 of treasury bills?—A. No, in your figure of $1,137.000,000 the treasury bills are included; and, of course, the banks did not hold all of the $155,000,000.

Q. We will let it go at that. A little while ago you used a term, and I noticed you used it repeatedly, that as cash reserves increase then the banks seek investments or commercial loans?—A. Yes.

Q. Well now, without going into it, what was the cause of this sharp increase between 1931 and 1936, a pick-up or increase of over $600,000,000 in the holdings of government bonds in that period?—A. I haven't got just the exact dates.

Q. In 1931 it is $396,000,000 and in 1936 it is $1,097,000,000. It is really about $700,000,000 of an increase in holdings of public securities, and there was a corresponding fall of about $450,000,000 in commercial loans.—A. The fall in commercial loans, not being as large as the increase in government securities.

Q. No, but there was a very decided fall?—A. Yes.

Q. Now, would you say that that increase in government investments of $700,000,000 was due to the fact that there was not available in Canada desirable commercial loans?—A. Yes.

Q. Wholly?—A. We come back there to the question as to whether there were some which should have been thought desirable and were not. That is a question of judgment; but in so far as the desire to make commercial loans is concerned, the desire has been there.

Q. Now, let us put it this way; would you say that there was such an absence of loans that might have with reasonable safety been made to warrant the switching of investment by an increase of $700,000,000?—A. I think that must have been the case.

Q. Well, it is difficult for me to agree with you there.—A. Well, the only way in which one could get down to that, could make sure with respect to that, is through the investigation of specific cases.

[Mr. Graham Ford Towers.]

Q. Yes. Now look, Mr. Towers, you used the term "desirable loans," and you continually use the term. Isn't there a danger in this swing in day to day banking practice that bankers may lose sight of what is the effect of their action upon the whole country in their extreme caution, shall I say, at certain times to take only such loans as not only seem to be desirable but that are absolutely secure? Isn't there a danger of that caution actually resulting in almost universal injury?—A. If the banking system is operating on the basis where it won't take even reasonable business risks, that is a bad thing.

Q. Well, would not these figures seem to indicate that the degree of caution went beyond what was warranted?—A. I do not think you can take anything from the figures. I think it should be a question of specific cases.

Q. Then, as Governor of the Bank of Canada—which you were in 1935 and have been since then—in 1936 there was a jump to $1,079,000,000; now, would you say that in your opinion the increase of Dominion and provincial government bonds was warranted?—A. We encouraged it.

Q. You encouraged it?—A. Yes, by adding to the banks' cash.

Q. Personally—I do not like to interject opinions—I rather criticize in my mind the asking of questions in the form of opinions—but what I am trying to emphasize is this, because I think it is of fundamental and of vital importance: to me these figures are tragic, and I think all-important. In other words, I think they challenge any thoughtful person to study out why such a change took place—and I am not saying it was bad or good, one way or the other—but I do say it challenges us; and what I would like to impress upon you is that there should be some very definite start and answer to this economic phenomenon, because it is nothing more or less than an economic phenomenon, to my mind. —A. The answer is not far to seek. During those years, particularly the earlier ones—this does not apply so much to the mid-1936 mid-1937 period, but particularly to the earlier years—the very unsatisfactory state of business and the high level of unemployment were natural factors making for a low level of commercial loans. At the same time, the same factors were making for large government deficits. The additions to the cash reserves of the banks and the consequent expansion in their investment holdings, were major factors enabling the governments to borrow the money required to cover deficits and to meet maturing loans on a very low interest basis. That policy, of course, has involved sacrifices for many people, but I think one was justified in expecting them because of the position in which governments found themselves during these years, and because of the general economic circumstances of the times.

Q. Well, now, would it be advisable for the government, or for Canada—I will leave the government out—to seek some loans abroad at low rates of interest rather than put this burden on the Canadian banks which is obviously in here—$700,000,000 of a jump in a matter of three or four years in our banks alone—would it not be better, or would it still be advisable, to seek for loans abroad?—A. No, I do not think so; because, as a matter of fact, circumstances were such that not only did we not need to borrow abroad but we have been able to bring back a lot of securities previously held abroad; and the increase in chartered banks' holdings has not taken away from their possibilities for financing commercial loans, which they must desire to do, because what they earn on government securities—naturally I haven't got accurate figures before me—is something like an average of 2 per cent; and naturally they are tremendously keen to get loans at a higher rate than that.

Q. Yes. I gather that you would agree that there is an abundance of credit in Canada?—A. For commercial loans?

Q. For commercial loans?—A. I would go further. I would say there is an intense pressure and desire on the part of banks to get commercial loans. Now, whether that carries as far as you would wish, whether that is accompanied by

a full measure of daringness, I cannot tell. One could only tell by taking specific cases.

Q. All right. If the requirements of Canada in 1926, 13 years ago, were $983,000,000, surely to-day we ought at least to have in commercial loans something over a billion dollars; 13 years ago, a normal year, it was $983,000,000.—A. Accurate figures are not obtainable as to classifications of loans as far back as 1926, but as a matter of fact we have made some guesses. They start at 1927.

Q. Take it from 1927?—A. In 1927 our agricultural loans amounted to $235,000,000, while in October of 1938 they were $149,000,000. That is a reduction of $86,000,000 in agricultural loans. You will remember that the 1927 period was one of large western crops.

Q. Yes?—A. Manufacture, including mining in 1927, $325,000,000; now $223,000,000.

Q. That is $100,000,000 down in that one classification.—A. In merchandizing, from $200,000,000 to $134,000,000.

Q. Well, Mr. Towers, don't you think those figures are challenging to the financial authorities of this country?—A. I do not think that the figures in themselves—

Q. I mean, the facts that these figures disclose; that manufacturing and industrial loans are down $150,000,000. Now, I assume that a portion of that is due to certain large industries which do their own banking by buying securities. I agree with that.—A. And, take the pulp and paper industry. I presume it is not borrowing nearly as much as it did in the 1927 period.

Q. But we should not be in a static position. We must surely expect some progress between 1927 and 1938. Why, the mere increase in the population would show some progress, and yet manufacturing loans are down in that period by $150,000,000.—A. Manufacturing loans are down $100,000,000.

Mr. Baker: Including mining.

Mr. Towers: Yes. Where loans are not large in any event, and never have been.

By Hon. Mr. Stevens:

Q. And your commercial loans are down something over $100,000,000, are they not?—A. Well, this is a section of the total commercial loan figure.

Q. I mean, the merchandising.—A. Merchandising loans are down $66,000,000.

Q. It seems to me, just taking as a whole those figures I have given, that that fact alone should be a challenge to the banking system of Canada as indicating that there is something radically wrong.—A. It seems to me that the approach should be in the other direction. Surely if there are people who feel that they can use bank credit and who are being hampered by the lack of it—surely it is possible to get our hooks on those people, so to speak, and investigate those cases.

Q. Investigate them, yes. Is there anything being done to investigate or seek for them? I think you are right in what you say.—A. But you have to get hold of the people. Where can you find them?

By Mr. Baker:

Q. You say "those people". What do you mean by "those people"?—A. The people who believe they should be getting bank credit but find themselves hampered by the lack of it. If one could hear from those people, if one could investigate those cases, one would get a far more practical idea of the efficacy or otherwise of the banking system than by thinking of it in general terms and as a result of those figures we have been discussing.

Mr. Baker: May I ask Mr. Stevens this question: Would the words "those people" which our friend Mr. Towers has used include people like the secondary manufacturing industries?

[Mr. Graham Ford Towers.]

Hon. Mr. STEVENS: Surely.

Mr. TOWERS: Undoubtedly.

Mr. BAKER: Would they not apply to those people more than to anybody else?

Hon. Mr. STEVENS: Likely.

Mr. BAKER: It would mean them more than anybody else, in my opinion

Mr. TOWERS: Yes.

Mr. BAKER: It is those people I think we are getting at.

Hon. Mr. STEVENS: Yes.

By Mr. Dubuc:

Q. Is it not a fact for the last four or five years—and I am speaking of commercial loans—that the bankers have asked practically every commercial firm to reduce annually the amount of help they needed from the banks—every year a certain proportion?—A. I was not aware of that.

Q. I can give you particular cases, because you wanted them.—A. Yes.

By Hon. Mr. Stevens:

Q. What would be the result if the Bank of Canada were to purchase, say, $200,000,000 of these government bonds from the chartered banks? What effect would that have?—A. The chartered banks' cash would increase by $200,000,000.

Q. Yes?—A. And their assets in the form of government bonds would decrease by $200,000,000.

Q. Yes?—A. You would then find that at the first stage of the transaction their deposits were the same as before, but their cash would have gone up from $250,000,000 to $450,000,000.

Q. Yes?—A. That would, shall I say, push the banks—at least, give them a strong inducement to try and find additional loans, if they could; the inducement there being, I think, no greater than now, because it is just as acute as it could be, so far as cash is concerned.

Q. I imagine, if I might interject, that if that were done, there would be far more effort made to find this class of borrowers that Mr. Baker referred to a moment ago?—A. I do not think so; because the pressure under which the banks are operating in that respect is, I think, just as intense as it could be.

Q. You assume that nothing more can be done with our present banking system in that respect?—A. No, not necessarily. I say that so far as the inducement of a liquid position, the inability to earn money in investments or to earn more than very little—so far as all those pressures are concerned, they are as great as they can be. We can then assume, without any question of doubt whatever, that the desire to get commercial loans is intense. That is unquestionably a fact. Now the balance of the question which you raise is entirely embraced in this one point: Is that desire accompanied by sufficient courage so that the appraisal of a reasonable banking risk is a generous appraisal?

Q. Yes?—A. There is the only question to decide. My view would be that there is much more likelihood of being able to decide that if only one could get one's teeth into specific cases to investigate—much more likelihood of being able to form an opinion in that way than in any other way that could be suggested.

Q. Let us assume, for the sake of this discussion, that there is a lack of courage.

Mr. Baker: On the part of whom?

An hon. Member: The banks.

By Hon. Mr. Stevens:

Q. Can you conceive of anything that the Bank of Canada and parliament and this committee might suggest or might do that would assist the banks or inspire the banks to the necessary courage?—A. I think the first step would be to get specific examples; because if one said in a general way to the banks: "You have not got sufficient courage and you are turning down loans which do not carry more than a reasonable business risk," they would say, "We are not, so far as we know. What are the cases?" Then the discussion falls to the ground. But if you discuss the proposition on the basis of specific cases, that is the first step. If the banks then say, "No, we do not share your opinion. We think that these loans involve far too much risk, that we cannot be in the position of exposing ourselves to almost certain losses on this scale," then you are at the point where you decide whether that attitude is legitimate; and if it is legitimate, whether other means can be found of supplying the money.

Q. What would you think of this suggestion? Suppose each of the chartered banks—and I think they have somewhere around 5,000 branches in Canada?—A. 3,000 odd in Canada.

Q. Yes, they are down now; say 3,500?—A. Yes.

Q. Suppose each of the chartered banks, after consultation with you and carefully thinking out this problem, were to instruct every branch manager in Canada to report to them—to first go out and survey his territory and then report to them the classes of loans that are desired on the part of borrowers which were not being satisfied by the local branches. Never mind whether they were good or bad, let them report on what the requirements are and let them make a study from that. Could that be done?—A. It would not be a physical impossibility.

Q. Is it not a thing that ought to be done?—A. I would like to think that over, Mr. Stevens.

Q. Let me just add one further suggestion to it. Should not a branch bank or a branch of a bank—and they are scattered all over the country—be the medium through which the nature of the business and the character of the people of that community is reported to the central head office?—A. Yes.

Q. And ought there not to be in all of these central bank offices—and consequently coming through to you—say monthly analyses of the financial and economic conditions of each community? Would that not be helpful—in fact, vital, I think?—A. Except to the extent that one could obtain the information in other ways.

Q. What other ways?—A. However, there again is a suggestion that I should like to consider.

Q. What other ways? For instance, statistically?—A. Yes.

Q. You must know—and I certainly think it myself—that the danger in this day and age is that we take general statistics and study them cold-bloodedly just as statistics, but we do not get to the very nature of these economic problems. Anyway, I suggest that to you.—A. Yes.

Q. Now I shall hasten on. Referring again to gold, I have a few questions. Gold is to-day treated as a commodity, is it not?—A. It is defined as a commodity in the producing countries and is a commodity until it get into the banking system.

Q. Do you think we are taking the full advantage of our gold resources by exporting it as a commodity as we do?—A. Yes; I think that we are making the most advantage of it in that form.

Q. Wait a minute—not in that form. Do you think we are making the maximum use of our gold resources in the way we have used them?—A. Yes, I do.

[Mr. Graham Ford Towers.]

In recent times we have added to our gold stocks in the amount of $25,000,000. I think our action in that respect should be determined by what we believe to be the needs for reserves, after taking all factors into consideration; that there would be no point in carrying reserves in excess of what one believed to be the requirements.

Q. You have virtually answered my next question, but I shall put it in any case. Would you be opposed to holding back, say, 40 or 50 per cent of our gold production for a few years and increasing our gold reserves?—A. I think that would be unnecessarily expensive.

Q. You do not see that there might be some stimulus to the internal conditions?—A. We could provide that stimulus without holding back that much gold.

Q. But we are not doing it?—A. We have very substantially.

Q. To a degree, I will admit; but not sufficient to meet the needs of the country. I mean, we must keep in mind that we are still in distress. The accumulation of gold in the United States, to which market we ship our gold now, is now about $16 billion, is it not?—A. It must be pretty close to that.

Q. Just about $16 billion; of which about $3 billion is ear-marked or liable to be withdrawn at any time when conditions improve. That is true?—A. I have not got their estimate of the foreign balances in the States; but let us say, for the purpose of argument, it is something of the order of $3 billion.

Q. I understand it is about $3 billion, which means that there is about $13 billion worth of, shall I say, frozen gold?—A. No; the presence of that gold is reflected to quite an extent in the reserves of their banks.

Q. Well, it is a tremendous quantity, in any case?—A. Yes.

Q. Having regard to Canada's gold mining industry, would you care to express an opinion as to the possible danger in the not distant future of some action by the United States to, shall I say, decrease the quantity of gold that will be shipped in there?—A. Oh, Mr. Stevens, I should be shot if I expressed any opinion one way or the other upon that subject.

Q. I am probably not in the same danger of being shot. Would you agree with me that the accumulation of gold in the United States is causing many authorities a good deal of concern at the present time? Or are you afraid of being shot for that too?—A. As a matter of fact, Mr. Morgenthau, secretary of the treasury, tried to set forth the views of the administration on that subject only a few weeks ago in a letter in which he answered a series of questions. I think he did it as effectively as it could possibly be done, and perhaps it would be better to let that letter speak for itself.

Q. All right: I shall not press you on that. What would you think of the advisability of coining a certain quantity of gold and turning it loose, letting it find its own market—in other words, relaxing the present absolutely controlled market of gold?—A. I rather doubt whether people will want to carry it in their pockets; they have never been accustomed to doing so in Canada.

Q. Not in Canada.—A. As a matter of fact, I do not think they will ever return to it in England.

Q. At present the gold is only handled in $25,000 ingots?—A. $14,000.

Q. $14,000 ingots?—A. Yes.

Q. Obviously it is not of a type that could be handled in small quantities? —A. No.

Q. Would you think it advisable, for instance, to issue, say, one ounce discs—not as money, but a disc that would be one ounce, that would have its value just the same as an ingot?—A. To encourage hoarding, you mean?

Q. To encourage hoarding or disappearance or export?—A. Well, of course on the continent there was for some years a considerable demand for gold coin.

Q. Yes?—A. As a matter of fact, such gold coin as there was in Canada was shipped over to the other side for that purpose. These things change,

because people's minds are swayed by a different fear each month, more or less; in recent times that demand has largely disappeared. The premium which there was at one time on gold coin has, I think, gone and people are dehoarding their gold coin at the present time on the continent and putting that money into United States bank notes and into sterling notes; so that just at the moment the tendency seems to be away from gold coin as being somewhat bulky, and into bank notes of the United Kingdom and of the United States.

Q. I shall leave that now.

Q. Referring to the easy money policy which you have referred to on several occasions, has this not operated almost exclusively to the benefit of public financing—A. Very materially also to the benefit of other borrowers. For example, the amount of refunding by corporations in Canada has been very substantial, and in that process too a lot of corporation debt held abroad has been brought home.

Q. Yes, I agree with you there.—A. Almost every issue which could be called by corporations, where there was a call provision, has been called and re-financed.

Q. But the easy money concept has not found its way down to the needy debtor class to which we referred at the opening of our remarks?—A. There, again, it would be a question of specific examination.

Q. You have no way of ascertaining whether it has or not? You would not agree with me that it has not?—A. I do not know, Mr. Stevens. The proof of that pudding would be in an examination of all refusals of loans which have been requested.

Q. You have just referred to the re-financing by corporations. I am not now referring in this question to the immediate past few years, but I am referring to the period prior to, say, 1930. Would you agree that the practice of merging numbers of industries and commercial institutions and changing their capital structure from stock capital to bond issues has had a damaging effect upon business generally?—A. I would say that from a financial point of view many of the things that were done during those years were bad. I would be hard put to it to say what effect it had on the actual volume of business.

Q. Would you mind giving me your opinion on this: Should a bond issue by a corporation be viewed as capital or as a mortgage debt?—A. From the legal point of view I do not know just where I stand on that, but personally I would view it as a mortgage debt.

Q. I do not think that is a legal question, I look upon it more as an auditor's question. It is a point which any auditor must decide.—A. It is part of the amount at risk of the business but occupying a position prior to stock.

Q. For instance, I have in mind a company that was on a stock basis and the owners of the majority of the stock desired to withdraw ten or fifteen million dollars as the company had certain real assets, and the balance was there in inventory, and so on. They put out a twenty million dollar bond issue, withdrew the proceeds to themselves and left the business covered with a bonded debt far beyond any of its real assets. Would you consider that was a desirable thing?—A. It is rather a hard question to answer without examination, but, on the basis on which you put it, it does not seem as though the character of the security suited that picture.

Q. In other words, bonds should not be issued against goodwill, inventory and other liquid assets of that kind?—A. That is a pretty broad statement but I think there is something in it.

Q. Would you consider it advisable to limit bond or mortgage charges to, say, a percentage of the fixed assets, I do not care what percentage, fifty or sixty per cent? —A. I think it is very dangerous to try to legislate either good judgment or financial propriety in cases like that. It is much better if one can work on an elastic system and achieve a standard of judgment and a financial propriety which will make unfortunate exceptions just as rare as possible.

[**Mr. Graham Ford Towers.**]

Q. Yes, but you will recall that you stated a little while ago, Mr. Towers, that in a period of buoyancy, and you also added perhaps in boom periods, there was a tendency on the part of banks and others to get too careless?—A. Yes.

Q. What I am getting at is this: Is it possible for the Bank of Canada and the commercial banks as leaders in finance to exercise some control over just such things as we have been discussing and to lay down broad principles which should determine what is sound finance and what is not?—A. Broad principles might be difficult. One would have to sit down and try to get them down in black and white before understanding whether you could define things in just such a way. If they could be defined very well in such a way, they might almost be defined by legislation. But the risk with legislation is that it keeps everything at a dead level, and while preventing certain unfortunate occurrences, it also prevents many good ones. That is the great risk of tying things up by legislation.

In regard to expressing opinions or trying to exercise influence in connection with developments of the kind which you mention as having occurred in times past, I certainly think that we would try to do so. Now, what success we would have would depend not on legislation but on persuasion, influence, or whatever you like. That is something which does not come overnight, but I think it is something which has to be tried.

Q. I gather that you would be opposed to bank directors being very heavy borrowers from the banks?—A. I would rather not express an opinion on that. There are certain features of the Bank Act which deal with that situation.

Q. Must be declared?—A. Yes.

Q. As a matter of principle it should be looked upon askance? Would you agree with that?—A. I think probably that if I were someone in business who was likely to have a need for credit on a substantial scale I would refuse an invitation to become a bank director.

By Mr. Kinley:

Q. Do you think there is any such danger to-day in directors borrowing from their own banks? It is the little bank that works that trick.—A. I do not recall any bad examples of that within the course of the last thirteen years in Canada, but, as I say, my personal preference would be that if I were likely to have substantial requirements I would not be a bank director because I would feel diffident about borrowing, if I were.

By Hon. Mr. Stevens:

Q. I have just two more questions to ask before I sit down. I really must apologize to the committee for taking up so much time. Would it be fair to say that the primary function of a commercial bank is to buy and sell commercial paper?—A. No, I would say it was to make commercial loans, and I will include the paper as a part of it.

Q. To make commercial loans?—A. Yes.

Q. That is the primary function of a banking system?—A. Of a commercial banking system.

Q. What is your view regarding the depreciation of the Canadian dollar to the sterling level, or, if you like, the pegging of the Canadian dollar with sterling?—A. Well, Mr. Stevens, I would ask you not to press that question because it is—

Q. —a question of government policy. I shall not do it; I do not wish to embarrass you. Would you say that if the Canadian dollar were on a sterling basis it would have the result to-day, and would have had the result in the last four or five years, of increasing or appreciating the value of our primary products to Canadian exporters?—A. In most of the last four or five years it would

have had the reverse effect of depreciating the Canadian prices of our primary products because in most of the last four or five years sterling has been at a premium over Canadian dollars.

Q. Yes, that is true.—A. For a long time it was $4.90 and $5. In fact, in 1933 it was as high as $5.20.

Q. In 1931 it was down to $3.70?—A. From December, 1931, until early in 1933 it was at something of a discount. Here are the annual averages. The annual average in 1931 was $4.70. In 1932 it was $3.98. In 1933 it was $4.60. That average conceals the fact that about mid-1933 it was up over par. For 1934 it was $4.98. For 1935 it was $4.92; 1936, $4.97; 1937, $4.97, and 1938, $4.91, on the average. So all during those years, say, from mid-1933—until probably mid-1938—five years, the Canadian dollar was at a discount on sterling.

Q. For the other periods it would have been to our advantage?—A. I do not say necessarily. We have tried to express our views as to what happens as a result of exchange depreciation, as you know, in the memoranda which are on file. It is an internal transfer almost entirely.

Hon. Mr. STEVENS: Mr. Chairman, I have occupied more time than I should have occupied, although there are some other questions I should like to have asked, but I do not wish to impose.

Mr. BAKER: Mr. Chairman, may I have a couple of minutes?

The CHAIRMAN: Yes, Mr. Baker.

Mr. BAKER: Mr. Chairman, I should like to mention that I think this has been the most interesting and valuable meeting of this committee that I have attended. I think, just expressing my own opinion, that this was largely due to the avoidance of theories and that the discussion was confined to matters of fact. There were some points brought out by Mr. Stevens with which I agree. I have nothing against the banking fraternity. I have had over forty years' experience, only as a borrower from the bank, it is true, but I think the point is quite correct that twenty-five or thirty years ago the banker went more on the personality of the individual he was doing business with than unfortunately he is doing to-day. In recent years the bank has relied more on collateral security than on the individual. I should like to see the day come again when the bankers would take a little broader attitude and let the individual count for more, as they used to do. I think it would be beneficial.

The question of banks forcing liquidation was brought up by my friend on the left. It is true perhaps that in certain instances, unforunately, the limitations were perhaps disadvantageous. On the other hand, while in some cases it seemed very unkind at the time, it turned out in the end that the urging of liquidation on the part of the bank proved quite correct. Had the man not liquidated when he did but had gone on with confidence and hope, which is the natural tendency of a businessman, he would have had less in the end than he had by taking the suggestion of the bank.

The next point I have to bring up is in connection with Mr. Stevens' suggestion that some ways and means should be found. Of course, that is too big a problem to deal with here to-day. I think he put his finger on the very spot when he suggested that some ways and means should be devised whereby business loans could be made which are now turned down. We have had the experience of improving conditions by the home improvement plan. We thought that was a terrible undertaking. It was said in the house that there were enormous difficulties in connection with it. We have found that time has shown there were less difficulties about it than we anticipated and there is less difficulty by banks working together than if they worked separately. But these questions are too big to go into to-day.

We now come to the percentages of losses. We find that the percentage is small. The bank has the people's money, we must remember, and they are

responsible for that, and they have to be cautious. When times are better they take bigger risks, but when times are bad and money is tight they say they cannot afford to take a loss or the chance of loss. If something could be done on the scale of the home improvement plan, I believe it would be to the advantage of the country. Then, economic nationalism was mentioned. That is a question that is going to remain and it must be dealt with. Mr. Stevens said if things remain as they are, then something must be done about it. It may be expensive, but that is a question of government concern, if I do say so, and not something that should be directed to the head of the Bank of Canada. It is a question of government policy.

Now, may I make some comment on the figures that were brought up here to-day by Mr. Stevens? Attention has been drawn to the fact that there are two weak places in our economy to-day, one is in regard to loans to agriculture and the other in regard to the manufacturing industry which means, secondary industry. There is where the lending has dropped down. Now, that lending dropped down because of lack of activity in these two fields. There is no doubt about that. These are the few points, if I may respectfully suggest, that we should take up, and we should endeavour to put our finger on the weak spot to see what can be done about it. It has been said that the businessman and the agriculturist, who is a producer, and also a businessman, want money to carry on business and agricultural work. It has been suggested that he has not courage. I do not accept that statement at all. I have had fifty years active business experience. My experience has taught me to believe that if anything the businessman, that is the average businessman, has too much courage. That is where he fell down. The fall does not come from lack of courage; it generally comes from being too confident, full of enthusiasm. Therefore it is not from lack of courage. I resent that, especially since it has been given great prominence. I resent it on behalf of other businessmen.

There are other points I have in mind, but I cannot mention them here now because of the hour. I think we have had a very interesting session to-day. Here are the two points I should like to suggest, and they are the ones I should like to deal with. The first has to do with loans to agriculture, and the second with loans to manufacturing industries. That is where we are suffering to-day and that is what is causing the terrible problem of unemployment that we have to-day. May I say, in my opinion, these are not questions which should be put to the Bank of Canada. I say they are questions of government policy. It is for the government to regulate matters in such a way by their policy that manufacturing industries and agricultural industries are put on a basis that will make them profitable, so that in the years ahead they may use the courage which they possess to go ahead and develop their industries and consume the unemployment from which we are suffering.

Now, I shall leave that point there, so that I shall not at this time get into a discussion as to how it could be done. I would respectfully suggest this: the viewpoints which we have had expressed here are viewpoints which can be dealt with on the basis of government policy. If our industries can be established on a sound basis and agriculture as well, we won't have so much trouble about unemployment. That is my humble opinion. These points were brought out here in one short session of this committee. This has been a most interesting session, and I do not think anything has been said that was to the annoyance of governments economical ideas or anything else. I could bring out a lot more points, but I will leave these two points with the committee as my humble expression of opinion.

Mr. Lacroix: Mr. Chairman, I should like to say that I differ from Mr. Baker in regard to the situation of forced liquidation. In some lines that may be all right, but in a primary industry such as the lumber business, the liquidation which we had in 1930 did not in the end bring benefit to the lumbering industry. The result has been all bad, and the provinces have been put

under an obligation to give away their raw material, and that is the result of the forced liquidation that the lumber business of eastern Canada has been put to. The lumber industry of eastern Canada has imposed upon the government the responsibility of trying to induce the business to come back into the market, and to do that they have to give away their raw material. For example, in different provinces, New Brunswick, Nova Scotia, Quebec and Ontario, we have to-day a result that shows that each of these provinces is giving away their trees for practically nothing. Take pulpwood, for example. It takes 15 trees on the average to make a cord of pulpwood to-day. Our provinces are giving away stumpage for $1.35 a cord. That means 9 cents for a tree which takes 60 years to grow to maturity and be put on the market. The result of the forced liquidation has brought our raw material to so low a figure that we are depriving our provinces of revenues that they need year by year. If forced liquidation is sometimes good, let me say that so far as the lumber industry was concerned, from my point of view it was the worst thing that could have happened. Prices were forced so low in 1930 that people could not make anything. All that the banks were doing was to obtain money to permit them to invest it in government of Canada bonds.

The CHAIRMAN: Shall we adjourn until Monday morning?

Mr. DEACHMAN: There are one or two questions I should like to ask, and then I want to further examine Mr. Towers. These questions have a direct bearing upon the examination of Mr. Stevens, and they have to do with the decline in commercial loans. Is it possible to measure the extent of the decline which was due to the decline in the price of manufactured articles, as for instance $1.50 wheat required more money to finance than 60 cent wheat? That is one question. How much of it was due to the desire of businessmen for liquidity because they wanted to become liquid because they feared the storm was upon them? That is question two. Then, this is question three: How much was due to changes of habit in commercial business? That is to say, take the case of grocery stores. At one time in grocery stores the turnover might not exceed three or four times a year. It has now become a matter of maybe one month or less. You have twelve times the turnover in a year instead of three as it was in the old days.

Mr. KINLEY: That is some turnover.

Mr. DEACHMAN: It is indeed, but that is what your chain-store tries to do; so that to measure the same relationship between the two there would be less requirement of commercial capital, the same thing applying all through business would lead us to what is termed "hand to mouth buying." That is my third question; and the fourth is this: It was mentioned to-day, and I think perhaps Mr. Towers will admit is it true, though I am not going to assume that; I will let him make a statement upon that. It is said that there is now more tendency for the banks to consider collateral rather than character in regard to the loans. Is that not due to a changed idea in regard to the sacredness of contracts? We would have been tremendously shocked a few years ago at the idea of forced liquidation of mortgages. But it has taken place in the province of Ontario and throughout the Dominion in the form of the Farmers' Creditors' Relief Act. It has also taken place in one of our provinces at least, whereby unilateral action they have simply cut the interest rate upon the bonds and as the validity of the contract becomes less sacred will not the bankers, as a matter of fact, turn to security rather than character, because character, because character has less value and is not worth as much as it was formerly? That is the fourth question. I should like to leave those question with you, but you may answer them now if you care to do so, or wait until our next meeting.

The CHAIRMAN: It is 1 o'clock. Shall we adjourn until Monday at 11? Mr. Deachman has the floor on Monday.

[Mr. Graham Ford Towers.]

Mr. JAQUES: I have a case to present. I happen to represent one government of Canada and, I may say, a great many millions of people in the dominion. I have no wish, of course, to speak out of my turn.

The CHAIRMAN: You follow Mr. Deachman. How is that? Suppose we have that as an understanding.

Mr. JAQUES: I want to know something definite, because there is a very important debate on in the house which affects me vitally.

The CHAIRMAN: All of us. How long will you take, Mr. Deachman?

Mr. DEACHMAN: Half an hour.

The CHAIRMAN: Suppose we say, Mr. Jaques, that you go on at 12 o'clock on Monday morning?

Mr. JAQUES: Can I count on that?

The CHAIRMAN: So far as the chairman is concerned.

Mr. DEACHMAN: I can get through by that time if I start at 11 o'clock and if Mr. Towers' answers are not too long.

The CHAIRMAN: I think you can safely count on that.

Mr. JAQUES: Monday?

The CHAIRMAN: Monday morning at 12 o'clock. I think that is the opinion of the committee.

Some Hon. MEMBERS: Yes.

The CHAIRMAN: That is our understanding. You will go on at 12 o'clock on Monday morning.

Mr. TOWERS: Before the committee adjourns, would it be satisfactory to Mr. Kinley if I placed on the record my answer to his question of the other day?

Mr. KINLEY: Give me a copy to-day.

Mr. TOWERS: Shall I hold it over until Monday?

Mr. KINLEY: I should like to have a copy right now. I think I know the answer.

Mr. TOWERS: Then I shall place on the record an answer to a question raised by Mr. McGeer in respect to the chartered banks advances from the Bank of Canada as shown on the return of chartered banks to the dominion government.

CHARTERED BANK ADVANCES FROM THE BANK OF CANADA

(Dollars)

As shown on Return of the Chartered Banks of the Dominion of Canada: Department of Finance

Date	Montreal	Nova Scotia	Toronto	Provincial	Commerce	Royal	Nationale	Dominion	Imperial	Barclays	Total
1935 Nil	....	....	....	....	....	....	....	....	....	....	....
1936 Nil	....	....	....	....	....	....	....	....	....	....	....
1937 Nil	....	....	....	....	....	....	....	....	....	....	....
1938 Oct. 31	....	....	....	$5,000,000	....	....	....	....	....	....	$5,000,000
1939 Nil	....	....	....	....	....	....	....	....	....	....	....

[Mr. Graham Ford Towers.]

Mr. KINLEY: You may put my answer in as well.

Mr. TOWERS:

THE EFFECTS OF USING AN INCREASE IN THE VOLUME OF CURRENCY TO REDEEM MATURING SECURITIES

Mr. Kinley raised the question at yesterday's meeting as to what effects there might be from using the issue of currency to meet security maturities. The answer to this question depends upon the circumstances in which such a transaction occurred and upon the amount involved. I believe I can best deal with the various aspects of the problem by referring to sections of memoranda submitted at previous meetings which are relevant to this question.

At least a corresponding increase in the volume of money must necessarily follow an expansion in the volume of currency. If the currency issued is legal tender there may be a ten to one expansion in the volume of money on the basis of increased banks' cash reserves.

The general effects of an expansion in the volume of money have been outlined on pages 83 and 84 of the minutes and proceedings. If the amount of expansion were enough to result in currency depreciation there would be certain other results which are referred to on pages 84 and 85 of the record.

The general effects which are mentioned in these references have been those which I would expect to occur if the additional amount of currency were permitted to perform the usual functions. If, however, there were an attempt to neutralize the effect of an increase in the volume of currency by some such measure as 100 per cent cash reserve requirements for the chartered banks, there would be certain other results to which I have drawn attention in pages 198 and 199 of the proceedings of this Committee.

I believe that the important effects of a transaction of this kind depend upon the amount involved and attendant circumstances because the technique involved in creating the additional currency by retiring securities is much the same in effect as the present system under which the Bank of Canada buys securities in order to expand cash reserves.

The CHAIRMAN: The committee stands adjourned until 11 o'clock on Monday morning.

The committee adjourned at 1.10 p.m. to meet again on Monday, May 8, at 11 a.m.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 14

MONDAY, MAY 8, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

MONDAY, May 8, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Deachman, Donnelly, Dubuc, Howard, Jaques, Kinley, Kirk, Landeryou, Leduc, McGeer, Martin, Moore, Stevens, Tucker, Ward, Woodsworth.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

In answer to a question asked by Mr. Deachman at the last sitting, Mr. Towers read a statement on the reasons for the decline in banks' commercial loans.

Examination of Mr. Towers was continued.

At 1.05 the Committee adjourned until tomorrow, Tuesday, at 11 o'clock a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons, Room 277,

May 8, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The Chairman: Proceed, Mr. Deachman.

In attendance: Graham Ford Towers, Governor of the Bank of Canada.

By Mr. Deachman:

Q. Mr. Chairman, when we adjourned on Saturday, I had addressed several questions to Mr. Towers in regard to the decline in the volume of current loans and discounts. I do not recall the exact order, but the first question was, Was the decline not due to a large extent to the decline in the price level?—A. May I proceed to answer?

Q. Yes.—A. I have some notes here in regard to the four sections of the question.

Q. All right, go ahead.—A. You will remember that the question mentioned, first of all, the effect of the decline in the price level; next the desire for liquidity; thirdly, possible changes in business practices, and, fourthly, any effect which anxiety in regard to the fulfilment of contracts might have had on borrowing and lending.

Q. Yes.—A. My answer this morning must necessarily in certain sections of it at least be of a very general character. It is impossible, I think, to calculate how much of the fall in commercial bank loans is due to each of the various factors which were operative during the period of the decline. All that can be done is to indicate that various factors for known reasons must have had an appreciable effect on the volume of commercial loans.

The lower price level—which is the first factor suggested by Mr. Deachman—undoubtedly has been an important reason for a smaller amount of commercial lending. A large part of banks' advances are for the purpose of financing the current inventories of industry. With lower prices the same volume of inventory represents a smaller dollar investment and therefore probably less need for bank credit.

During the years when general business activity was contracting—say 1930-33—and there were relatively few opportunities for profitable expansion of industrial production, a great many firms attained a very liquid working capital position, i.e., not seeing profitable avenues for investment they paid off bank loans and built-up cash balances. There were other firms, of course, which were unable to weather the financial crisis unassisted and had to increase their borrowings from the banks. The results of this situation upon the course of bank loans during 1934-1938, have been two-fold. First, firms which attained a position of liquidity in 1930-33 have been able to finance a considerable degree of recovery out of their own cash resources, without recourse to the banks. Secondly, improvement in business conditions permitted many of the firms which were forced to increase their bank loans in 1930-33 to repay those advances out of their earnings from a larger volume of operations. Together, these two factors were to a large extent responsible for the failure of commercial loans to rise more quickly and to a larger extent during 1934-38.

There has also been, as Mr. Deachman mentioned, a tendency for many concerns to operate on a lower volume of inventory in recent years. In some cases this development is undoubtedly an outgrowth of the depression when businessmen found that if necessary it was possible and efficient to operate on a smaller inventory than had previously been customary. Improvement in transportation and manufacturing technique probably has also been a reason. On the whole, I would ascribe to this factor considerably less importance than to the first factors which I mentioned, namely, prices and liquidity.

In the case of at least one important commodity—wheat—smaller volume due to poor crops has been an important factor in reducing the amount of bank loans required for financing.

While it is impossible to say how much of the decline in commercial loans has been due to each of the factors which Mr. Deachman mentioned at the last meeting and which I have attempted to describe in a general way this morning, I believe that in total these factors account for the great part of the decline in current loans.

I have not made any reference as yet to the possible effect on the situation of doubt in respect to contracts and in respect to the fulfilment of contracts. What psychological effect that may have had, there is no question but that to the extent which doubt enters into business dealings it is a factor of importance and a hindrance to business development. To assess it quantitatively, as Mr. Deachman knows, would be impossible,

As a last remark I might say that in certain industries it should be possible to obtain a more accurate idea of the bank loan situation by taking companies' annual balance sheets and putting them together. In doing so, one will not be able to distinguish between the three factors, namely, the effect of a decline in prices, the desire for liquidity, or a change in habits, because these balance sheets only show the total dollar value of the inventory and will usually not indicate volume. But something more might be done along those lines to get an idea here and there of the changes in the picture. It is quite a piece of work; in fact, I may say we could not have anything very extensive for these meetings of the committee. It is a type of work which we intend to proceed with as soon as we have an opportunity.

Q. There is another question to which Mr. Stevens referred and which I think is rather important. He referred to the question of a greater spirit of adventure as far as the banker was concerned. Your reply to that, as I recall it, was that there was a larger place for equity money. But is it not true that by a substitution of government activities, by restrictions which have been placed on the more or less speculative activities, we tend to take the spirit of adventure out of business?—A. Yes.

Q. Take for instance the Farmers' Creditors Arrangement Act. If we destroy the sanctity of the mortgage then we have substituted something else, have we not?—A. Yes.

Q. In that connection, I want to read now one or two sentences from an address by Harold W. Dodds, president of Princeton University: "What youth seeks to-day," the author concluded, referring to a student's article, "is security." And he comments upon that as an extraordinary thing, but he makes this further observation:—

> "To-day the insecurity of which millions are so conscious seems to be the consequence of human folly, in that it springs from man's struggle with man rather than from the age-old familiar struggle with nature."

Is the change which has been brought about there not a factor which discourages the investment of equity money?—A. I think it is.

Q. Perhaps the creation of a mortgage bank with which we are now dealing in the House of Commons is an indication of that. These items which I have

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mentioned deal rather with the reluctance of borrowers to borrow. I should like now to turn to the position of the commercial banker, and here may I point out certain figures applicable to the year 1937 which represent the banks' sources of revenue. There are investments, call and short loans, loans to provincial governments, cities, towns and municipalities, current loans and discounts and non-current loans.—A. Yes.

Q. There are other minor incidentals, but the total money, according to the year book, involved in these items is $2,460,000,000. That would be approximately correct?—A. Yes.

Q. The earnings statement of the banks in the year 1937 amounted to $16,355,000. Dividing this sum, which includes also net earnings from services as well as interest and discount, that is, the total net earnings of the banks, by the $2,460,000,000, which is the total sum employed in effective bank operations, we have a net earning of roughly ·66 of 1 per cent on the total amount involved. Is that roughly correct?—A. Yes.

Q. The point I want to get at is this: Looking at it from the standpoint of the commercial banker in a period of stress and storm, when his margin is so extremely narrow, you could hardly expect the same adventurous spirit, could you?—A. No.

The earnings of 1929 were $28,000,000 as against $16,000,000 in 1937. I am taking my figures from the Canada year book. So, again, you had something which curbed this spirit of adventure. It would be true, would it not, that it is possible that the generals of finance, like generals in an army, may have been a little panicky?—A. Yes.

Q. That is another cause. That is perhaps the cause, to some extent, of that restriction which Mr. Stevens discussed the other day in regard to loans?—A. Yes.

Q. The adventurous spirit was gone because of practical necessity—

The CHAIRMAN: Would not the word "cautious" be better than "panicky"?

Mr. DEACHMAN: A condition of panic, I think, prevailed in the United States.

The CHAIRMAN: Yes.

By Mr. Deachman:

Q. There is perhaps another cause, if you explore it further. The panicky situation which existed in the United States may have been carried to Canada and resulted in the exercise of a certain amount of caution reasonable under the circumstances. Thanks for the correction, Mr. Chairman.

Now I want to come to the other position. Is it not true that there are times when liquidation is necessary?—A. Yes.

Q. It is easier to check a boom than to check a depression?—A. It is.

Q. If the central banks could have foreseen the condition which arose in 1930, could they have checked it if they had started in 1924?—A. I would say that, theoretically, at least, something could have been done if they started about 1928.

Q. But once having reached that point in 1929 was not liquidation essential?—A. Yes, it was, and one of the major changes which took place, of course, was along these lines. Up to and including 1928 the United States had been lending vast sums abroad; they had built up a greatly enlarged world trade, naturally, as the proceeds of those vast loans were expended in the various countries which received them. They were not all loans to governments, of course, and when I say, "countries which received them", I mean governments and their nationals. That had been going on for some years. It got going quite strongly in 1925, and 1926, 1927 and 1928 were large years. Then that loaning activity was, practically speaking, cut off almost over night.

Q. Was the cutting off due to the unwisdom of these loans? Were they poor investments?—A. In many cases, they were. It was, however, only partly due to that. I do not think that there was perhaps a great realization at that time that they were poor; but what had happened was that the wave of speculation in the United States had gone so far that interest rates were very high. Even by the summer of 1928, speaking from memory, there was a rate on call loans in New York for a time as high as 10 per cent.

By Hon. Mr. Stevens:

Q. Higher than that, was it not?—A. It may have been in 1928. Of course, it was much higher in 1929. But even in the summer of 1928 I think it touched 10 per cent. That meant that with such rates offering for loans of that character the opportunity for floating new bond issues for foreign lending at any price which would have been at all respectable and which borrowers could afford to pay—it meant that that type of business was cut off by the intense demands at home of a speculative character at high interest rates.

By Mr. Deachman:

Q. Further than that, take your speculative profits which existed at that time; is the result not the development of certain defects in the economy of the country? Take, for example, the establishment of industries which under normal conditions would not exist in the United States but which could exist only during the period of speculative earnings?—A. I would find it difficult to point to any exact industry where that applied. But it is true that the enormous speculative activity had served to distort things very greatly. That speculation was taking place not only in securities but also in real estate.

Q. Quite.—A. It was being financed to an enormous extent by credit. That credit was being used in part, shall we say, to buy still further new issues or else part of it was being spent by individuals as part of their profits. There was a false accession to spending power which could only be of a temporary character and the disappearance of which was bound to have very severe repercussions on general business.

Q. It could only be corrected by a process of deflation?—A. Yes.

Q. And any attempt to carry on on the level then existing would simply have been an attempt to plug the clinical thermometer?—A. That would have been impossible when things had reached the stage they reached in 1929. A considerable downward movement was absolutely inevitable. Whether it fed too greatly on itself and went too far, whether it could have been stopped at an earlier stage than it was stopped is, of course, a matter of opinion.

Q. So that at least it had to take place to a certain extent, and the only question which remains in our minds would be whether under the impetus which it received, because it had risen so high it had to fall a considerable distance—the only question is, did it fall too far?—A. Yes.

Q. Now I want to ask you a question or two in regard to the operation of banking and currency regulations. You probably know of Mr. R. G. Hawtrey's book?—A. "The Art of Central Banking"?

Q. Yes.—A. Yes.

Q. There is one item here which I should like to read dealing with the very matter we were discussing on Saturday and which had been brought up by Mr. Stevens:

> On the other hand, a hitch may occur in credit regulation through trade depression causing such a degree of pessimism among traders that they cannot be induced to borrow. Ordinarily, in order to bring about a contraction of credit, the banks must take positive steps to deter traders from borrowing.

You cannot take positive steps to compel them to borrow?—A. No.

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Q. But it may happen that demand is so contracted and markets are so unfavourable that traders, seeing no prospect of profit, abstain from enterprise and do not borrow. The reluctance of borrowers may cause a contraction of credit quite as effectively as the reluctance of lenders.

A. That is true.

Q. That is obviously true?—A. Yes.

Q. It goes on:

> When that happens, it seems to be the extreme of paradox to say that there is a shortage of money. There appears to the money market to be a plethora of money; there is more than can be used. Any one who can offer adequate security can borrow at ridiculously low rates. In 1895 and 1896, day to day money in the London money market frequently fell to $\frac{1}{4}$ per cent.
>
> But the low rates are merely the outward expression of the unprofitableness of business and the unwillingness of traders to borrow. The normal process by which they borrow to pay the incomes arising from economic activity is checked, and a shortage of incomes means a shortage of money in the essential sense of money offered from day to day in exchange for commodities and services.

The question I wanted to ask you was this: We have always heard during a depression that it was the scarcity of money that was causing the depression. In reality it is not, according to this; it is not a shortage of money in the banks but a shortage of money effered from day to day in exchange for commodities and services.

Mr. Landeryou: That is right. That is purchasing power in the hands of the people.

By Mr. Deachman:

Q. The article continues:

> The decline in borrowing means a decline in incomes and in demand, and the decline in demand only makes the traders more reluctant to borrow. There is a deadlock which can best be broken by injecting money into the system.

I want to consider that for a moment or two. We have an easy money policy at the present time? That is correct, is it not?—A. Yes.

Q. There is an abundance of bank money, according to your evidence on page 272, which makes that quite clear?—A. Yes.

Q. You referred to an actual abundance for the present and future?

Mr. Landeryou: That is, in the banks?

Mr. Deachman: In the hands of the banks.

By Mr. Deachman:

Q. Could we now gain anything from pumping more money into the banking system?—A. In expressing any opinions so far I have limited them to opinions as to the situation to date. Not knowing conditions as they may be over the course of the next couple of years I would not care to express a definite opinion as to whether a further increase in bank deposits would or would not be desirable. Under certain circumstances I think it would be; under other circumstances it might have no useful effect.

Q. I was referring particularly to the situation as it exists at the present time.—A. As it exists now, I do not think that had deposits been somewhat higher than they are now it would have had any beneficial effect on business.

Q. On the volume of borrowing?—A. Or on the volume of borrowing.

Q. I should like an explanation of this:

> Now the central bank has the power of creating money. If it chooses to buy assets of any kind, it assumes corresponding liabilities, and its liabilities, whether notes or deposits, are money. It can, for example, buy long-dated securities in the open market, thereby creating deposits which are credited to the banks with which the sellers of the securities have accounts. The banks find their cash reserves swollen and become more desirous of lending.

Does the bank buy long-term securities to-day?—A. We are empowered to within certain limitations which are set forth in the statute, but as our balance sheet shows, the bulk of our securities are of a rather short-term character.

Q. You have stated that the buying of further securities to-day would not have any material effect on the expansion of loans?—A. Not on the expansion of commercial loans, no. It might result in a further expansion of investments.

Q. Take the holder of the long-term bonds——

By Mr. Tucker:

Q. I understood you to say that if you increased the banks' reserves substantially it would have have the effect on the banks of extending their commercial loans, definitely.—A. Yes, because I think that the desire on the part of the banks to increase their commercial loans is now as intense as it possibly can be.

Q. That is what I wanted you to admit long ago, that you had no control over the expansion of commercial credit by the chartered banks.—A. I think there is a misunderstanding there. I think that an expansion of the chartered banks' cash right now would result in an increase in their total of loans and investments and consequently in their deposits. But I think that their desire even now to expand their commercial loans is such that it cannot be increased. It cannot be made more intense.

Q. Therefore, as I asked you repeatedly before, there is no way in which we can cause an increase in commercial loans in commercial banks to-day?—A. But surely the case is this: They cannot increase their commercial loans unless they can find borrowers.

By Mr. Landeryou:

Q. Why will not people borrow to-day?

Mr. McGeer: The answer was quite clear, that if you increased the volume of bank cash it would not result in increasing the volume of public loans today because the banks have a surplus and are seeking to do that to-day.

Mr. Towers: Yes.

Mr. Tucker: I tried to get that from you before.

Mr. Towers: I am sorry, Mr. Tucker, if I misunderstood you.

By Mr. Deachman:

Q. I think I had better proceed, otherwise we might get stuck. In regard to the holders of the long-term bonds, if they sold their bonds to the Bank of Canada and the money was deposited in the commercial banks they would not be inclined to use it. I means, the holders of the money, those who had deposited the money in the banks, would not be inclined to use it for any speculative activity?—A. That has certainly been proved by the events of the last few years, when the decline of velocity——

Q. It did not increase the borrowers' desire to borrow?—A. It did not increase the borrowers' desire. Perhaps I should qualify that by saying that the ability to get long-term money at very low rates, that is, by corporation bond

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issues, may have here and there helped people to come to a decision to borrow, but certainly the amount involved is quite small.

Q. That is precisely the point which Mr. Hawtrey makes here:

> Obviously, however intense the depression, the unwillingness of borrowers can never be absolute and universal. That would only occur if all economic activity had been completely shut down. To some extent borrowers will be induced to come forward.

But at the present time and under present conditions the facts are that they do not come forward to any marked extent, and that is the reason for the low volume of business to-day?

Mr. Landeryou: Could we have the reason for their reluctance to borrow?

Mr. Deachman: I am going to deal with that in a few moments.

Mr. Tucker: I wonder if Mr. Towers agrees with Mr. Deachman's last statement. There was no answer.

Mr. Towers: Yes, I agree with that. I assume it refers to private borrowers. Public borrowers in the form of governments have been borrowing on a much larger scale. But I think Mr. Deachman was referring to the private individual and companies and, on that basis, I agree with it.

Mr. Deachman: Commercial borrowers from commercial banks.

By Mr. Deachman:

Q. Now, I want to know if there is any alternative to this. Can a government by public spending take up the slack of this lack of borrowing and thus increase business and also commercial borrowings from the banks? What is the result of experience in regard to that?—A. I think the experience in regard to that is that government spending and government deficits increase under circumstances such as you mention. That has been the experience in various countries. They increase no matter whether it is as a result of a definite plan to increase government spending for pump priming purposes, or whether it is a position in which governments find themselves placed because of relief payments and other necessities of that kind. Whatever the policy involved, the deficits tend to increase. I think that it is fair to say that under conditions of intense depression that government borrowing and spending does help to temper the wind to the shorn lamb, speaking of the people as a whole, does help in that sense to bridge the gap. There may often be arguments in favour of a partial continuation of that policy even when the necessity is not so acute, if the spending is directed towards things which definitely strengthen the economy; but I do not think that by any stretch of the imagination can one assume that spending of that character does remove the cause of the trouble or that it can be anything more than a stop-gap under a democratic system of government. If it is to be more than a stop-gap, if it is really to replace private spending, then surely it has to carry right through the picture and one has to adopt a different form of government.

Q. Has it been profitable in the United States?

Mr. Tucker: What is that?

By Mr. Deachman:

Q. Has the idea of government spending been of material value in improving conditions in the United States?—A. In spite of spending that has taken place they remain, from many points of view, in bad shape. What position they would have been in if there had not been any government expenditures of that scale, I cannot say. If it has done anything it has presumably kept them from being worse than they are, but they are still in bad shape.

Q. United States economy was not, surely, in such a condition prior to the depression that they would have to go so much further in that connection than we went, was it?—A. One would not think so.

By Mr. Tucker:

Q. Has not instalment buying gone much further in the United States than Canada, mortgaging the future purchasing power?—A. In what period, say 1929?

Q. Prior to 1930.—A. I should think it did, yes.

By Mr. Deachman:

Q. In a volume which I read by Professor Seligman he said that was a new method of financing consumption, and there was absolutely nothing wrong with it, but I shall let that pass for the moment. I want to ask another question. Is there a change coming over the minds of the people in regard to public spending? Let me put it another way: is there not a feeling to-day that the idea of economy is coming back, as it is bound to follow?—A. There do seem to be signs of that in the United States.

Q. And in Canada, too?—A. I have not been able to get any definite impression in Canada in that respect.

Q. If you got in touch with the farmers in the province of Ontario I think you would find that is very distinct.

The CHAIRMAN: What is distinct?

Mr. DEACHMAN: The movement towards the desire for greater economy in handling of public affairs from one end of the country to the other, which is compelling, under the circumstances, is it not, Mr. Chairman? I want to read an extract from Lord Balfour—

Mr. TUCKER: We cannot hear what you are saying.

Mr. DEACHMAN: I am quoting from Lord Balfour. I am not quite sure of the date, but I think it was before the war, and it reads as follows:—

> All the increase is due to the desire of this House to ameliorate the social position and to carry out great reforms . . . all the forces of political life—honest, honourable and patriotic forces—move in the direction of increasing and not of diminishing expenditure.

Now, that was while expansion was taking place in the expenditures of England up to the time of the war. There is one sentence more I want to read and this is from Lloyd George, and is as follows:—

> The idea that public spending may itself create the incomes which enable it to be carried on arose: fructification was now deemed possible in the state's own pocket;
>
> " a tax is like the sun. It draws up the moisture from the sea, and sends it back in the form of rain to some other part of the world's surface."

These quotations are from a review of a book in *The Economist*. The point I want to come to is this. That represents the policy of expansion, which was a policy which happened in a period of adventure, when people were going forward. Now there has been a check to that, from whatever cause, and it should follow logically that we will arrive at a period in which the politician who advocates economy will once more be the popular man.

The CHAIRMAN: Once more be elected.

Mr. DEACHMAN: Yes.

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By Mr. Deachman:

Q. Do you suppose that is within the bounds of possibility, and not even in remote times, Mr. Towers?—A. I think the committee has a better opportunity of expressing an opinion on that than I have.

The CHAIRMAN: Or experiencing the result.

By Mr. Deachman:

Q. Another point I wanted to ask is this: would budget deficits applied to tax reduction prove efficient? By that, I mean we would remit taxes, consumers' taxes, and accept an unbalanced budget as against the idea of creating employment by spending money and allowing it to be spent on public works which were probably not within the confines of your definition, that is, they would not improve the national economy. Might it not be better to accept budget deficit and remit taxes?—A. I should like to think that question over and make a more careful answer than I can right here and now.

Q. It is true, Mr. Towers, is it not, that a depression is simply a constriction of the consumers' income?—A. Yes.

Q. Then, would it not be worth while to consider the idea of expansion of the consumers' income as a remedy for depression?—A. Yes. I think that in certain circumstances that policy you suggest has merit. I suppose that—I am not making this as a final answer but rather as thinking aloud about the method of approach to the answer which I should like to make—you would have to determine the extent to which money left in the hands of the people, with whom it would be left through the reduction in taxes, was money which they would spend either for consumption goods or for capital development purposes.

Q. The overbalancing factor which I think would also have to be determined —I go back to your reference to construction of public works, of public utilities which improve the national income—I think it would be rather difficult to locate them as far as our economy is concerned, but that is only a passing thought. The third alternative would be—

Mr. McGEER: You mean difficult to locate things on which we could spend money to improve conditions?

Mr. DEACHMAN: I won't enter into an argument now, but that would be my offhand opinion on that. We may be able to discuss it at some other time. The third alternative is this.

Mr. TUCKER: What about the tourist trade?

Mr. DEACHMAN: I could deal with that too, but time is going on and we are nearing the end of the session.

By Mr. Deachman:

Q. Must we pay more attention to the non-monetary factors? You have, I think, already expressed the idea that monetary action for the restoration of price levels has gone about as far as it could go. Would you say, therefore, that it might be wise policy to consider more carefully the non-monetary factors which restrict the movement of goods and services?—A. I think the non-monetary factors are by far the most important.

Q. At the present time?—A. Yes. And I make that statement, so far as I am aware, in no sense as an alibi. I believe that it is the case, and I think that in the United States also where for a time they laid such tremendous stress on monetary factors, that they too are coming to realize more and more, and the evidences of it are strewn on the pages of the American record these days, that the non-monetary factors in their problem are the ones of major importance.

Q. Now, I want to speak for a moment about the balance of payment, Mr. Towers. You will recall that in the statement of Sir Arthur Salter, referring

to the conditions which existed in Europe during the depression he said that: nations in order to protect their balance of payment frequently had recourse to restriction of trade only to find later that it tended to intensify the difficulties they were trying to solve, that it was making the situation even worse. Now, I want to turn to a statement of Hawtrey's dealing with this.

The CHAIRMAN: Give the page of the book.

Mr. DEACHMAN: Page 150 of The Art of Central Banking, and it reads as follows:

> If we call the price level of home trade products the internal price level, and that of foreign trade products the external price level, we may say that, when the consumers' income and outlay expand, the effect is to raise the internal price level to a new equilibrium, but that instead of the external price level being raised, additional imports are attracted, and there results an adverse balance of payments.

That is, when the people begin to have increased incomes, there is a tendency towards adverse balance of payments. That is the end of the quotation, so far as Mr. Hawtrey is concerned.

Now, I want to point out this further obvious fact, and to ask you your opinion upon it. When that happens, there is shown a tendency in monetary, fiscal and political efforts to correct the balance, and therefore again to compress consumers' income and bring a tendency towards a further tightening of money and further restriction of purchasing power. Is that correct?

Mr. TOWERS: He is assuming a case, I suppose, where a country has been progressing so fast that it has got out of line with others; that what has taken place is not a general development of production and consumption around the world, but one where in an individual country, for certain special reasons, they are living beyond their income, so to speak.

By Mr. Deachman:

Q. If general development had taken place around the world it would not so materially affect the balance of payments?—A. No.

Q. Referring more particularly to that, and it was to those conditions which Sir Arthur Salter directed the argument also, in particular countries of Europe where their economy had reached conditions of strain, they had difficulty in making their payments and in consequence they resorted to embargoes and restrictions.—A. Yes.

Q. And that further increased the depression, decreased production and consumption, and therefore tended towards intensifying the depression.—A. Yes.

Q. Well, I think I am coming to the point where I want to have your opinion in regard to a remedy for that. We shall see when we come to it. We had from you a few days ago the statement that the position of the Canadian dollar was this: the Canadian dollar was at its natural level due to its trade position. That was, I think, your answer?—A. That its level was dictated by supply and demand on the market.

Q. That would be its natural level?—A. Yes.

Q. Now my question, and I am not at all sure of myself in this, and so I want help. Is not the logical and correct level of the monetary unit—the dollar or the franc or the pound or anything else—the level which it reaches from its natural trading position? The same line of conduct, in other words, which you have carried out here by allowing the dollar to reach its normal level due to its trading position, would be the proper course for everybody?—A. I think that would be the case nine times out of ten. I would not say that it must always necessarily be the case.

Q. Well, then, would this be right, Mr. Towers: that if we were to measure your capacity as Governor of the Bank of Canada— —A. Oh, please do not.

[Mr. Graham Ford Towers.]

Q. It should be measured by your ability to drive without letting anyone know that you were putting your hand on the wheel?—A. I find that question too difficult to answer.

Q. You would not want someone driving with you and you to be conscious of driving all the time?—A. Anything which agitated people by constant fears of change is bad.

Q. Quite. Then, is this true: when our dollar falls in value, it falls to correct a condition which ought to be corrected?

Mr. TUCKER: You say "fear of change", it may be hope of change, which would have a tremendously stimulating effect. Hope of change for the better is good. Chance is not always to be feared, surely?

Mr. TOWERS: The type of change that I was thinking of would be now here and now there or the other place. One permanent change for the better, if it was for the better, would, as you say, be helpful.

By Mr. Deachman:

Q. Take, for instance, this example: we had a large measure of prosperity in the States in 1937. I do not know what the factors were that caused that, though I heard Dr. Sprague express his opinion in regard to that, and we might very readily have similar conditions develop here, and if it could be managed so that the Bank of Canada in co-operation with the policy of the Dominion government and the provinces, and incidentally with the people as a whole, could make things move along a good deal more swiftly, then I think that is highly desirable in so far as that is concerned; but I come to this point: if our dollar falls, naturally it falls to correct a condition which ought to be corrected, which is a response to adverse balance of trade or to some other condition in regard to our monetary system?—A. That would be true except in so far as—and I won't apply this necessarily to Canada. We have seen that happen in other countries—there might be circumstances where the currency fell in value not by reason of any actual economic development within that country, but by reason of flight movement of capital. That comes into really a different category.

Q. You would have to imagine rather peculiar conditions for that to exist in Canada, though it might in some violent change in our political society?—A. Yes; you would have to imagine rather unusual conditions.

Q. In that case we are dealing with an emergency situation and therefore emergency measures in operation might be necessary?—A. Yes.

Q. I am making this suggestion, and I am not sure whether I am right or wrong. When it is forced to fall through direct political or central bank action, it involves dangers, economic, financial and political, which ought to be avoided; that is, there is the danger in the movement, in the direct action of the lowering of the value of our trading unit for the purpose of some specific purpose which the people may have in view?—A. There is no question that there are tremendous dangers involved. I do not recall any case, unless one can say that there was a case in the United States. I do not recall any cases where that has been done in just the form which you mention.

Q. We dealt the other day with the hypothetical case of what O'Henry would term a hypodermical case. We dealt the other day with the suggestion that our dollar should have been allied with the pound. Suppose that were done: suppose we let our dollar, or through monetary action caused it to depreciate in value until it was of the same value as the pound, we would then have lost sight of the main cause for which we created the central bank. We would not have the control of our own currency?—A. If we linked—

Q. If we linked it with the pound we would cease to have control of our own currency?—A. Yes, we would. I think the circumstances of Canada are such that we cannot conceive of our definitely linking our currency with any other one currency.

Q. No, because as far as conditions which brought about the establishment of the central bank are concerned, I think it would be safe to say that it was provided for the purpose of controlling our own dollar, and we cannot abandon the purpose for which we established the organization of the central bank.

Mr. TUCKER: We have not been doing anything along that line according to Governor Towers, to control the value of our dollar.

Mr. TOWERS: I think I suggested that in so far as the central bank was concerned, that its influence on the level of the dollar is a long-term affair through the effects of domestic monetary policy; that action which involved specific stabilization with any other currency is something which must necessarily be a matter of government policy.

By Mr. Tucker:

Q. I understood you to say that you had taken no conscious action by the Bank of Canada in any way to affect the foreign exchange value of our dollar?—A. I would say that that does not apply to domestic monetary policy.

Q. I understood you to say that you had not done anything since you have been governor of the bank at all. You have or you have not. Mr. Deachman is assuming that your policy has been that of control of the external value of the dollar. I am pointing out that I understood from you that you had done nothing to affect the external value.—A. What I meant was this: the domestic monetary policy over a period of years will undoubtedly have an effect on the value of currency that is, long-term effect. Our policy has been one of expansion. Now, all other things being equal, that would tend to lower the value of the currency over a period of years.

Q. That was not the purpose of it?—A. Not necessarily, no. If, at the same time as one country is pursuing a policy of that kind, other countries are doing the same thing to an equal extent, then the relative levels of the various currencies may not change.

By Mr. Deachman:

Q. That is the situation here?—A. What you had in mind was specific activity in the exchange market to change the exchange value?

By Mr. Tucker:

Q. Oh, no. I had in mind the continuous issue of more and more cash reserves of the banks which would cause the coming into existence of more and more money in the country, which would cause a rise in general level of prices, which, of course, would have a tendency to lower the value of our dollar as compared with the currency of other countries.—A. I see, and that is the policy which has been pursued.

Q. That is the effect of the policy, and if anything could be done along that line——A. That is the policy which, in fact, has been pursued; but at the same time several other countries have been pursuing policies of a similar kind so that if you all march at the same speed you do not get very far from each other.

Q. You should march a little faster.—A. You mean break into a run?

By Mr. Deachman:

Q. At least the result has been this, the dollar has remained practically on level with the currency of the United States, and it was practically the same in its relation as it has been for some time?—A. Yes.

Q. Mr. Chairman, I have not finished with my examination. It is 12 o'clock.

The CHAIRMAN: Will you let Mr. Deachman finish, Mr. Jaques?

[Mr. Graham Ford Towers.]

Mr. DEACHMAN: I think I had better not. I made a promise that I would finish at 12 o'clock. I should like to leave the matter now and take it up some other time, as I promised Mr. Jaques that I would be through at 12 o'clock. I believe I should stop now in order to give him the hour that I promised. No harm will be done so far as I am concerned in breaking into what I have to say. If I can have permission to carry on when he is through it will be quite satisfactory to me.

The CHAIRMAN: Is that satisfactory to the committee?

Mr. HOWARD: I congratulate you on quitting when you said you would.

Mr. JAQUES: I would rather Mr. Deachman took all the time he wants.

Mr. DEACHMAN: All right.

Mr. JAQUES: I am willing to sit here until this time next year so long as I have an opportunity to put my case to the committee.

The CHAIRMAN: Then, is it the understanding that Mr. Deachman finishes and Mr. Jaques follows?

By Mr. Deachman:

Q. I have one other question in regard to balance of trade. To save time, Mr. Chairman, I am going to state it dogmatically, then let Mr. Towers give his point of view.

Q. (1) We have at present a favourable balance of payment. That is, after meeting all our obligations abroad there is a sum available for repatriation of Canadian obligations held abroad, or for investment abroad. Is that correct?—A. Yes.

Q. (2) Our capacity to consume is our capacity to produce (leaving out borrowing, of course) or stating it another way, which is more accurate—our production plus imports less exports equals the amount available for consumption?—A. Yes.

Q. (3) Consumption in Canada is at a relatively low level. Is it wise at a time such as this through financial or monetary control to restrict to this extent the volume of purchasing power of either consumer goods or capital commodities? Should we pay off fewer debts during a period of depression or should we try to raise the standard of living of our own people?—A. I think I see the point you are driving at, Mr. Deachman, and I think I should like to have time to frame an answer. To help me to do so, may I inquire if the underlying thought in your mind is this, that the repatriation of foreign debt which is taking place is what you might call an evidence of a low level of activity in this country?

Q. I am putting it rather in this way: this is a time of relatively low standards, and it seems to me a rather strange and anomalous position in which we can have money available to buy back our obligations abroad while at the same time we have not the money to put our own people to work. I am not stating that as a criticism of the banking system; it might be fiscal or monetary, but I want to explore that and see if we cannot bring these surpluses in the form of consumable goods.—A. In fact, the low level of capital development in Canada is a factor in the so-called favourable balance of payments, and therefore in the repatriation of debt. If capital development was taking place on a much larger scale naturally one would find imports a good deal larger and the favourable balance less.

Q. Yes, quite, but it means this as I see it, that people with the financial capacity are the people at the present time who buy in their obligations, whereas the people of the Dominion of Canada are on a very low standard of living, and I want to know if our favourable balance of trade is a calculated policy for that purpose? I want to know if our monetary attitude has anything to do with it, operation of our central bank, or whether the cause of this lies in other sources? That is the question I should like to ask.—A. I should like to try to frame an answer to that question.

Q. Now I come back to something which was brought up by my friend, Mr. Landeryou. He referred to the matter of coal in Alberta, apples in British Columbia, and to the difficulty of making an exchange between the two.

Mr. LANDERYOU: As an illustration.

By Mr. Deachman:

Q. As an illustration. Could you tell me why that cannot take place?—A. That is a question?

Q. Or, putting it another way, is it not a matter purely of price?—A. I assume, as you said the other day, that the people who have fruit and want coal are getting their coal somewhere else.

Q. Leave that out of consideration for the moment and just take it as a hypothetical case. What would prevent the exchange taking place?—A. Assuming that the two demands match, nothing but a question of price.

Q. Yes, price. Well, now, let us carry it to the next item where we get a little clearer view of it. In this case, Alberta desires to ship coal to Saskatchewan, and I take it that there again the reason for it being extremely difficult is that the price of wheat relative to production is extremely low, and the fact that Germany, Italy and France have blocked our market for wheat prevents Alberta from selling coal to Saskatchewan?—A. Prevents Saskatchewan from buying many things which it would otherwise buy.

Q. And the same thing exists in regard to the relationship between the province of Saskatchewan and the province of Ontario in regard to agricultural implements?—A. Yes, the province of Saskatchewan versus the rest of Canada and the rest of the world, you might say.

Q. So, as far as that particular item is concerned, the primary and essential thing is not monetary change, because you have explained to us now that the process of adjusting the price levels between, say, the level of manufactured goods and the level of farm products is not within the control of monetary science; it may help, but it is not within its control?—A. No.

Q. So in that case it requires non-monetary action of some kind, or a change in the attitude of the people, or, as Lin Yutang sought to have it, a new commandment which would read, "Thou shalt not kill, not even thy neighbour." So that mere barter as between nations is extremely difficult, and you may follow that further and say that mere bilateral agreements between two nations is only a partial solution of the problem and that we need a broadening out of the field of trade by multilateral action?—A. Unfortunately, the other methods which you mention are extremely inefficient and an expensive way of trying to do the job, as Germany has found out.

Q. The barter system would be carried on without the use of money but it would not alter the need for money as the need for exchange is still there, despite the adoption of the barter system?—A. Yes.

Q. So that taking Mr. Landeryou as an example, because he was speaking of coal the other day, and his position with regard to the Saskatchewan farmer, and Mr. McGeer is exactly the same, they are all salesmen and they are trying to get a market for a certain commodity, and in the case of the bankers, the commodity they are trying to market is money?—A. Yes.

Q. And they find difficulty in marketing it because of conditions which exist outside the monetary field?—A. I think that is true.

Q. I have only two or three more questions to ask and one arises out of a letter which I received sometime ago dealing with the amount of Bank of England notes in circulation. I would appreciate it if you would let me have at your convenience the circulation of Bank of England notes and currency notes. You know the distinction between the two? The old Bradburys.—A. Yes; I think the old Bradburys, certainly to the extent that they are outstanding, are included in the figures of the Bank of England notes.

[**Mr. Graham Ford Towers.**]

Q. I should like to have the figures of the Bank of England notes and currency notes in circulation in 1925, on the first date following the amalgamation of the Bank of England circulation, with the circulation of the notes of the currency notes commissioners during some date which you may select in the last three years. I should like to have those figures simply to make a comparison of something I desire to look up myself.—A. Yes.

Q. The next question I have arises out of a letter which I received not long ago from someone in the east. I am loading a bit of my troubles on you now for just a moment. There is $1,623,000,000 in the savings accounts of the merchant banks of Canada, a substantial portion of which is available for the financing of public enterprise at less than 2 per cent. That was the statement contained in the letter I received, and my question is would the loaning of this money for public enterprise at 2 per cent endanger the position of the banks, and, if so, why?—A. The sum of $1,623,000,000 in savings accounts is, of course, the property of the various depositors. The banks have already in loans and investments an amount equal to the savings and demand deposits. But the individuals who own these deposits can, of course, loan them to the government or to anyone else by buying, in the case of government borrowings, government bonds. The extent to which those savings depositors are willing to buy government bonds at 2 per cent, I do not know.

Q. It is rather limited?—A. I think it is very limited.

Mr. LANDERYOU: Mr. Deachman, did you intend to convey the idea that the banks could use the peoples' savings?

Mr. DEACHMAN: No, I am simply stating this question as I received it, because it is a common question received by many members.

Mr. TOWERS: I think that the question is inspired by the thought that $1,623,000,000 is an amount available by the banks to lend, whereas, of course, the banks have already loaned and invested the amount which is represented by those savings deposits.

By Mr. Deachman:

Q. So far as the man who has money to invest is concerned at 2 per cent——A. It does not attract the savings depositor.

Q. And would not even in England?—A. No.

Q. Consols are higher than that?—A. Much.

Q. What about the price of United States bonds; they are tax free, are they not?—A. They are tax free, in so far as the corporation tax is concerned or in so far as the normal tax is concerned, and it makes the comparison rather difficult. I think their long-term bonds sell to yield 2·34 per cent.

Q. 2·34 per cent as against what in Canada?—A. As against, say, 3 per cent in Canada. I have a figure of 3·06 which is based on the average of the 3 per cent 1955 loan and the 3¼ 1966 loan.

Q. What was the American figure?—A. 2·34, and it is based on the United States treasury 2⅞ issue, due 1960.

Q. Subject to exemption?—A. Subject to exemption, yes.

By Mr. Tucker:

Q. Subject to what?—A. Income tax exemption.

Q. That is, federal income tax or both federal and provincial?—A. My recollection is federal and state.

By Mr. Dubuc:

Q. And exempt from what?—A. Exempt from the normal tax.

Q. But in Canada they have to pay both federal and provincial?—A. Yes.

By Mr. Deachman:

Q. I should now like to deal with one or two questions brought up by Mr. McGeer. In 1938 the national income was $4,400,000,000, and 1914 it was $2,600,000,000. Between 1914 and 1938 we have an increase in the national income of $1,800,000,000.—A. Yes.

Q. The debt of the Dominion in 1938 was placed at $6,071,000,000, and in 1914 at $833,000,000. The addition to the debt since 1914, therefore, has been $5,238,000,000. Assuming your interest rate is 4 per cent, that would mean an additional interest charge to the people of Canada of $209,520,000. Now, the question is this: In your opinion is that debt any harder for us to carry than the debt of 1914? In other words, if you were Canada would you go back to the old income or take the $1,800,000,000 and pay the debt charges? There is an increased income of $1,800,000,000.

Mr. HOWARD: On?

Mr. DEACHMAN: An increase in the national income between 1914 and 1938 of $1,800,000,000, and an income in the debt charge of $209,520,000.

The CHAIRMAN: Annual debt charge?

Mr. DEACHMAN: Yes, annual debt charge, so far as the Dominion is concerned and the provinces and the municipalities. I am just pointing out merely the debt loan in order to measure what we have done.

Mr. LANDERYOU: What about the guaranteed debts?

Mr. DEACHMAN: It includes all debts, according to this statement.

Mr. MCGEER: That does not include that.

Hon. Mr. STEVENS: The income is the income of all the people of Canada.

Mr. DEACHMAN: Yes.

Hon. Mr. STEVENS: That is reflected not only in the increase in the three branches of public debt, it is also reflected in the increase in corporate debt.

Mr. DEACHMAN: Yes, but on the question of your corporate debt it is represented also in your increase in income.

The other point is that government expenditures were $1,120,000,000 in 1938 and in 1914 they were $306,000,000.

The 1914 percentage of expenditure to income was 11·8 per cent. In 1938 it was 25·04 per cent. Does that increased debt not represent to a large extent the change from a relatively agricultural state of economy, where our expenditure upon public works and public utilities and services was not so great, to a more urban community where expenditures upon these things are much larger, and represent not so much an indication of extravagance as an indication of a change in the economic life of the people of Canada?—A. A change in the conception of governmental responsibilities for the provision of various things. That is the major factor, plus the war.

Q. We have added certain services which formerly were paid by the communities themselves. Take old age pensions, where we looked after our fathers and mothers and nowadays it is placed upon the government; there is a change in that respect?—A. That is the major change, or changes of that type.

Q. The other item is this: If the 1938 income had been as high as 1929, that volume of percentage would have declined to 20 per cent, so that I am asking is not the future of our national progress dependent upon the increase of the national income rather than upon a reduction of national expenditure?—A. Yes, I think that is certainly the case. The impact of national expenditure on the economy, of course, may influence the degree of increase in the national income.

Q. Oh, quite, I would certainly say it does. As far as our development goes in the future we will probably increase that expenditure, but the question is do we get value for the expenditure? Is it an expenditure which improves our national economy?—A. Yes.

[Mr. Graham Ford Towers.]

Q. There is one other item I should like to ask you. We have been discussing the central bank and its work, its future and everything else. The central bank has not yet reached a testing time, has it?—A. No.

Q. That will come in a time of boom. Is there anything which could be done to safeguard that condition or must we leave it entirely to the wisdom of the central bank authorities and to the intelligence of the people? I mean, is there some way by which further educational work could be done among the people to give them a better conception of what must be done by the central bank and also what must be done by themselves, because, if you have a highly emotional and expensive type of people tending towards speculative excesses it will be more difficult to control the monetary system by the central bank?—A. I think a greater understanding of central bank activities and monetary matters in general is highly desirable. But so far as we ourselves are concerned we have not found any ways and means of doing a great deal of work along those lines. I think the attitude of public men, of business, of the people generally towards the central bank, will be an important factor in what it is able to do.

By Hon. Mr. Stevens:

Q. Referring to the question Mr. Deachman asked just before his last question as to the change in the type of economy in Canada and its relation to increased debt and expenditure, was that not largely due to the tremendous war debt increase and the unique manner in which that money was expended? —A. The war debt increase accounts for a portion. But, of course, there has been a very substantial increase in the debt post war, if one takes in Dominion, provincial and municipal debts. the building up of various services, the building up of various enterprises—and by enterprises, of course, I might mean hydro power for example—and, finally, in these later years, the incurrence of debt for social purposes.

By Mr. Landeryou:

Q. It has been pointed out that there has been a decline in commercial loans, that industrial borrowers are reluctant to borrow money; could Mr. Towers give us the reason for the reluctance to borrow money from commercial banks? —A. Presumably people who may think of borrowing cannot see ways and means of profitably employing the funds; therefore, they do not borrow.

Mr. HOWARD: Lack of confidence.

By Mr. Landeryou:

Q. Lack of confidence in the future, as my honourable friend puts it. They are naturally conversant with market conditions and they know that with increased production they cannot sell their goods; is that not the reason?—A. Then there is the other feature which ties into that but which perhaps does not apply specifically to bank borrowing, the borrowing which a corporation might do through the sale of its stock or bonds to finance a program on capital account. If the outlook for the future is rather obscure they will hesitate to incur that expenditure because they do not know whether they will be able to operate the new machinery profitably in years to come.

Q. There is little reason to expand their capital when they cannot sell the products they already have; that is the point.—A. If their present capacity is is in excess of their requirements there would be no reason to expand from the capacity point of view alone. Sometimes in these cases you will find capital expenditure going on to improve the method of output so as to enable them to get along better.

Q. Mr. Jaques has permitted me to take one or two minutes to bring to the attention of the committee the synopsis of the report from which I quoted from memory the other day. This is from the proceedings of the fourth international conference of agricultural economists, St. Andrews, Scotland, 1936.

The CHAIRMAN: By whom?

Mr. LANDERYOU: Oxford University Press, Humphrey Milford, 1937. 523 pages and index, as contained in *The Economic Annalist*, a review of agricultural business issued bi-monthly by the Agricultural Economics Branch, Department of Agriculture, Ottawa, published by authority of the Honourable James G. Gardiner, Minister of Agriculture. There are two pages only. I would not care to read it all into the record, although I should like to have it in there. The quotation is as follows:—

> Problems of consumption of agricultural products were dealt with by E. P. Cathcart, professor of physiology, university of Glasgow, who treated the problems from the nutritional or physiological standpoint, and by R. B. Forrester, university college of Wales, who attacked the problem from the economic point of view. Those taking part in the discussion included F. L. MacDougal, Australia House, London; E. H. M. Lloyd, Market Supply Committee, London; F. Von Bulow, International Labour Office, Geneva; Hazel K. Stiebeling, Bureau of Home Economics, Washington, D.C.; M. K. Bennett, Food Research Institute, Stanford University, California; and S. Schmidt, University of Cracow, Poland. The general feeling expressed in the discussion was of the need for increased consumption both from the standpoint of solving the agricultural marketing problem and from the sociological point of view. Means considered for bringing this about included: (1) increased real purchasing power for the masses; (2) decreased costs; (3) social measures.

Those are the three points which I quoted from memory as I had read them in *The Economic Annalist*. Could I put the rest of it on the record? I do not suppose it is necessary.

The CHAIRMAN: I doubt that because there are some questions that other members of the committee would like to put on the record.

Mr. LANDERYOU: I should like another opportunity to question Mr. Towers, but I will leave it.

The CHAIRMAN: The understanding was that Mr. Jaques would proceed.

By Mr. Tucker:

Q. There was just one thing that I should like to have an answer on, not now, but I should like to have Mr. Towers give his considered opinion on this matter. It is something to which I think he must have given a lot of thought in view of the fact that the bulk of the money of the country is to be found in bank deposits and that the bulk of these bank deposits are really regarded by many people as investments thereby tangling up the question of investments with money. Has there been any thought given to any system of untangling that feature of our economic system which at times must cause wrong considerations to prevail in regard to the use of money? One of the things that has occurred to me is the fact that a tax on bank deposits of, say $\frac{1}{2}$ of 1 per cent per month would cause bank deposits to once more become money instead of being regarded as investments. I do not want an answer now because I think it is something to which consideration should be given, that instead of permitting banks to lower their interest rates we should permit a tax on bank deposits.

By Mr. McGeer:

Q. Mr. Chairman, there was one question I should like to ask arising out of Mr. Deachman's examination, if I may be permitted to put it?

The CHAIRMAN: We proposed that Mr. Jaques should go on at 12 o'clock.

Mr. JAQUES: If Mr. McGeer wants to ask a question now, I am agreeable.

The CHAIRMAN: All right.

By Mr. McGeer:

Q. Mr. Towers, you recall that Mr. Deachman suggested to you that public spending at this particular time would not probably produce any satisfactory results in the way of increasing bank loans or bringing about a general improvement in our economy?—A. I think his statement was along the lines of a permanent improvement in the general economy with whatever resultant effect that might have on bank loans. In earlier meetings in speaking of public expenditures, what I have stated is that to have a permanently good effect they should be on things which strengthen the economy as a whole. Mr. Deachman may have expressed some views on that particular point.

Q. I should like to draw your attention to the British MacMillan Report statement in regard to that at page 136, reading from the middle of the page:

> Very low rates of discount prevail, it is true, already, but have so far failed to bring about the transfer of money from short-term to long-term loans. The main practical obstacle which we see in the way of a resumption of long-term investment is the shortage of acceptable and willing borrowers for the purpose of new enterprise, due to the general unprofitableness of industry. The task is, therefore, a double one; partly to attract borrowers of unquestioned standing by a low rate of interest on long-term loans, partly to increase the supply of attractive loans. With the first end in view, central banks might use their influence to promote confidence in the duration of low short-term rates and to persuade the member banks of their system to reduce the rate of interest allowed on deposits, so as to discourage the public from withholding their resources from the investment market.

That has been done?—A. Yes.

Q. And that situation obtains in Canada to-day; that is, there is plenty of money in the banks and plenty of resources upon which the banks can increase their bank deposits, but there is not available the type of borrower through whom the banks care to invest by making bank loans?—A. Yes, on an increasing scale, i.e., sufficient to raise the sum total of loans.

Q. On an increasing scale?—A. Yes.

Q. So that the situation described by the MacMillan committee really obtains to-day in Canada?—A. Yes.

Q. The report goes on:

> The greatest difficulty, however, which we foresee is the fulfilment of the second task, namely, to remedy the shortage of definitely sound borrowers for the purpose of new enterprise. The vicious circle is complete. The decline of new enterprise has reacted adversely on profits and prices, and the low level of profits and prices stands in the way of new enterprise. It is for this reason that some of us think that in the domestic field it may be necessary to invoke governmental enterprise to break the vicious circle.

Now, as a matter of fact, whether it has been successful or not, public spending has been resorted to in the United States, Great Britain and Canada to break that vicious circle?—A. In the United States in particular, in Canada, yes; in Great Britain, until the rearmament program came along, it was resorted to only to a moderate extent.

Q. And now it has been resorted to very extensively?—A. For reasons which I suppose are other than economic.

The CHAIRMAN: Mr. Jaques.

Mr. McGEER: Mr. Jaques has given way to me, Mr. Chairman.

The CHAIRMAN: Please excuse me just a minute. Mr. Jaques has spoken to me, I think, after every session for the last three or four sessions and stated that he had not had an opportunity of presenting his case. Mr. Jaques gave

way to you for the purpose of a specific question. We had an arrangement at the last committee meeting that Mr. Jaques would proceed.

Mr. McGeer: I was just through, Mr. Chairman, if you had remained quiet.

The Chairman: We had an arrangement that Mr. Jaques was to go on at 12 o'clock. It is now half past 12. I simply want to give every person an opportunity to express his opinion and have a part in this examination.

Mr. Jaques: Mr. Chairman, I should like to add my appreciation of Mr. Towers' unfailing good humour in this examination. I shall say nothing to ruffle it, and I should like to believe that whatever questions I may put are put in the interests of the country at large.

Mr. Towers: I am sure of that, Mr. Jaques.

Mr. Jaques: Now, we hold a different viewpoint from perhaps the majority of the people of the country. These views, as a rule, are not readily accepted; but I think that the general state of not only this country but of the world at large is such that it should incline everybody to open their minds to new ideas and to be willing to admit that there is something radically wrong with the world. I do not wish to discuss any particular phase of industry or any particular part of Canada or even Canada itself, because all industry in every country, apparently, is in the same condition. Before I begin there are one or two questions I should like to ask Mr. Towers. He answered them but I did not quite understand the answers which he gave.

By Mr. Jaques:

Q. The first question is this. You mentioned, if I remember rightly, that it cost the banks 3 per cent to loan money?—A. I think so, so far as I can guess, that is the total cost of their operations.

Q. Three per cent on every dollar which they loan; is that right?—A. Three per cent on say, their total assets or liabilities, whichever you care to take. In other words, if a bank were the size of say $100,000,000 of assets and $100,000,000 of liabilities its operating expenses and costs for interest payments to depositors right now would be in the neighbourhood of 3 per cent on $100,000,000.

By Mr. Kinley:

Q. Would that include the interest they pay on borrowed money to their depositors?—A. Yes, it does, and the operating expenditures. My opinion would be, and as I have said before it is a guess, it is not based on figures which have been compiled, the operating expenditures would be in the neighbourhood of 2 per cent and interest, nowadays averages 1 per cent.

By Mr. Tucker:

Q. I have forgotten whether you said that included all bad debts or losses? —A. No, it does not.

By Mr. Kinley:

Q. Does it include allowances for bad debts?—A. No, it does not. In other words, that is 3 per cent on the operating and interest cost side. On the earning side they would have to try to get 3 per cent to balance these costs, and something more for the provision of reserves for bad debts and for payment of dividends.

Q. Do you include in that the cost of plant, for instance, the buildings that they put up all over Canada and which are valued very low in their statements? —A. It would include the expenses of operating those, heating and lighting them.

Q. The constructing of them? They construct so many a year?—A. No.

Q. That is capital cost?—A. Yes.

[Mr. Graham Ford Towers.]

By Mr. Jaques:

Q. Why do the banks encourage savings?—A. Well, I would assume that was part of the banks business. Perhaps that is the wrong answer. Perhaps I have not seen what you are driving at, Mr. Jaques.

Q. Well, the point is that they do not loan those savings?—A. The banks?

Q. No.—A. Oh, yes.

Q. I understood you to say they could not loan what did not belong to them.—A. The banks, cannot, of course, loan the money of their depositors. What the banks have done is to make loans and investments which result in a certain sum total of deposits. In respect to savings that amount is $1,600,000,000 odd. Now, what the depositors do with these savings is something which is quite beyond the control of the banks. The depositors can leave the savings idle, in which case there is no turnover. They then rest in the banks. Or the depositor can, if he chooses, spend it on consumption goods. If it is a pure savings account, he is unlikely to do that; or he can buy government bonds, corporation bonds, any investment of that kind that he liked; but the banks have no control over what the depositor does with his money.

By Mr. Landeryou:

Q. Why do they encourage them to save and put their savings in the banks when they do not loan the people's savings? That is what Mr. Jaques is trying to get at?—A. You mean that the banks should encourage people to take it out in the form of cash?

Q. What is their purpose in encouraging people to place their savings in the banks, on which they receive $1\frac{1}{2}$ per cent, which is a cost to the banks? Why do they encourage them to do that if the banks do not loan the savings of the people?—A. If they were not on deposit in a savings account they would be either withdrawn in the form of cash or they would be found in demand deposit accounts. Now, as a matter of fact, so far as the banks as a whole are concerned, they would naturally prefer to have the money on deposit rather than have it withdrawn in legal tender cash.

Q. The reason is that we have the use of cash in the expansion of credit?—A. If all deposits were withdrawn in the form of legal tender cash, of course, there would be no banking system as we know it to-day and the banks would have no assets in the form of loans or bonds.

Q. Because they would have no cash to create credit?—A. Because depositors would have withdrawn their deposits in the form of cash, and no banking system such as we know now could have been built up; but while the individual branch manager will, quite properly, try to encourage a person to build up deposits in his savings account with that particular branch, because it does mean something to that individual branch manager, it does not mean anything to the sum total of deposits as a whole; so one has very often to distinguish between the type of things that an individual branch manager quite properly will do as contrasted with the situation of the banking system as a whole.

By Mr. Jaques:

Q. Well, I forget the figures, but roughly $1,200,000,000— —A. The total Canadian deposits are $2,500,000,000 approximately.

Q. Savings deposits?—A. Savings deposits about $1,660,000,000.

Q. Now is it fair to say that all of these savings deposits are true savings?—A. In the sense that they are thrift accounts.

Q. Well, in this way: are they available for investment in capital expansion?—A. Yes, they are, if the depositors wish to use them in that form.

Q. For instance, if I have any balance left over when I leave Ottawa from my indemnity, I will put it in the bank in a savings account?—A. Yes.

Q. While that is in a savings deposit, it is not a saving in the true sense, because I intend to live on that until I come down here again. I believe there is a large percentage of those so-called savings in the same category as mine would be.

The CHAIRMAN: Is not that what a savings is? Is that not the nature of saving, the desire for future use?

Mr. JAQUES: What I would call a true savings would be a sum of money which I have set aside and which I do not intend to use in the immediate future, or at least I do not intend to use it for my living expenses. I have set that aside for the purpose of investment, and I think that a great deal of those so-called savings are merely moneys which are deposited into a savings account rather than in a current account.

Mr. TOWERS: There is no doubt a fair amount of that, yes.

By Mr. Jaques:

Q. I think there is.—A. I think the banks are trying to get what you might call the active savings accounts—that is the ones in which there are a fair number of cheques, and if the account is not really a savings account, but intended for expenditures you will find a number of cheques issued on it—I think that they try, in various cases, to get those moved into current accounts, feeling that they really are of a current account character rather than true savings accounts.

Q. Now this is a question that has been asked and answered many times, but I have a reason for asking it. You have agreed that banks do create money? —A. They, by their activities in making loans and investments create liabilities for themselves. They create liabilities in the form of deposits.

Q. And by buying securities?—A. By making investments in securities or by making loans.

Q. You will agree with the statement that has been made that banks lend by creating the means of payment?—A. Yes, I think that is right, but the other way of putting it, I think, is just as good.

Q. Why is it, then, Mr. Towers, that the banks have gone to such pains in the past to hide that fundamental fact?—A. Well, I do not know that they have been at pains to hide it. I think that an individual bank might wish to emphasize that so far as it is concerned, that process does not seem to operate—if I am not making too confused a statement. An individual bank, when it makes a loan or makes an investment, might find, of course, that a portion of the resultant deposit is taken away from it in the form of cash, taken to another bank.

By Mr. Landeryou:

Q. Is it not for this reason, a lot of the officials in the branch banks do not understand how banking operates as a whole, so they make these statements? On numerous occasions they have said that they lend people's savings, and that they have cash behind all deposits, and all such trash as that.—A. The subject is a very complicated one in its various aspects around the country.

By Mr. Jaques:

Q. That would not apply to the bank. You are referring to a branch, but not to the banks as a whole.—A. Well, each individual bank, of course, has to remember that if it is making loans or investments faster than some other banks, it will be losing cash to other banks.

Q. Yes?—A. So that I think in an effort to distinguish between the individual banks in that respect as distinct from the banking system as a whole and to define clearly the individual bank's limitations in respect to adding to its assets and deposits, there has been probably some lack of clarity in respect to the whole subject.

[Mr. Graham Ford Towers.]

Q. That factor was very strongly denied in this committee in 1934 when the new Bank Act was being discussed. I remember the statement of Mr. Jackson Dodds, general manager of the Bank of Montreal. He denied in a most vigorous way that assertion, and he said that the only object of Mr. McKenna's statement was to advertise the Midland Bank. I remember that was one of his statements. And he also said that he anyway, and I suppose he was speaking for the Bank of Montreal, did loan their depositors' money. It is in the blue book of the proceedings of this committee in 1934.—A. There has, of course, been great misunderstanding on all sides in respect to the whole thing. It is true that the ability of a bank or of the banking system to have loans and investments, depends on the willingness of depositors to leave their money on deposit; so the counterpart of the deposits is the loans and investments. In that sense you might say that it represents an investment or a loan of the depositors' money.

Q. I do not wish to go into that; I merely wished to say that that has been poor policy on the part of the banks, because there are now many people who are suspicious, and furthermore it has confused the general public into believing that there is just so much money in the world and there cannot be any more until someone saves, so the idea that money can be created for any purpose which is desirable seems to be resented by many people, and a great many people seem incapable of believing it.—A. I agree that there has been a good deal of confusion, and that confusion has been unfortunate; the development of a clear understanding commenced many years ago would have been most desirable.

By Mr. Landeryou:

Q. It has been denied that a bank could create money by a fountain pen entry, or by an ordinary pen and ink entry. It was denied all through western Canada in a campaign carried on by bank clerks and managers.—A. Very often the way in which the statement was made was a wrong one.

Q. Well, that may be true. They may not have clarified it. The statement has been denied that the banks could by pen and ink entry create the equivalent of money in their books.

The CHAIRMAN: That is the way you make contracts, Mr. Landeryou, by pen and ink.

By Mr. Landeryou:

Q. The point is, it was denied.—A. It very often carries the implication that the banks are somehow or another creating assets for themselves; that it is an easy game, so to speak.

Q. In fact, they do.—A. No. they do not; they create a liability.

The CHAIRMAN: Mr. Jaques has the floor. I am trying to protect Mr. Jaques.

Mr. LANDERYOU: All right.

By Mr. Jaques:

Q. What led me to make that remark was this: I remember when the war broke out—that was the Great War—I was farming at the time, and within a week of its outbreak I went into the local bank and asked the manager for a loan. He said, "What for?" I said, "Well, here is a European war and unless history is not to be followed there will be a demand for everything which we can produce." He said, "Well, you cannot produce anything this year; it is August; it is too late." I said, "No, I was not thinking of this year; I was thinking of next year. I can, with some money get a great deal of land broken up and put it into crop next year." The answer I got was, "Why, the war will

be over in six months; there is not enough money in the world to finance it." We all know the war did not cease for want of money, and the next one will not be prevented by want of it, either. You mentioned the other day that a royal commission—I think in Ireland, if I remember rightly—A. Yes.

Q. Dealing with the theories which I understand are known as social credit— —A. Yes.

Q. If I am not mistaken they are known as social credit, and you said that the commission condemned them as being fallacious?—A. Yes.

Q. You are aware that there was a minority report which stated that they were in entire agreement with those ideas?—A. No, I was not.

Q. As a matter of fact, there was, and I should like to observe on that too, that if you set up a commission composed of brewers and distillers and their agents to examine the benefits of temperance, you won't get very much logic.—A. My recollection is—although I should not speak for Ireland—that there was a very large commission which represented considerable diversity of interests. However, I cannot say who they were.

Q. Now, I should like to refer to the word "orthodox". Speaking of the word "orthodox" I have a list of orthodox beliefs, and they are as follows: machines create jobs; public debt is inflationary; private debt healthy and sound. We must balance our budgets; and to-day that we must tighten our belts. We did it before and we can do it again. The unorthodox beliefs are that debt is not workable, and that money is a public utility, that a growing economy cannot follow a balanced budget and that the only sound money is debt-free money.

Mr. Deachman: What do you mean by "debt-free money"?

Mr. Jaques: Money which is not distributed in the form of a debt.

Mr. Deachman: Would you explain how it can be done?

Mr. Jaques: How it can be done?

Mr. Deachman: Yes.

Mr. Jaques: In a financial sense? I would rather postpone that until——

Mr. Deachman: We have had one postponement already. Mr. Landeryou postponed his remedy.

Mr. Landeryou: Now, I have never been asked that question. I think that is absolutely unfair. If you asked me, I would answer you. That question has never been put to me. I have never been asked what debt-free money is. If you ask me I will answer you.

Mr. Deachman: I beg your pardon. I was referring to the proposal where you said you had a plan to offer and were going to give us a solution of our difficulties.

Mr. Landeryou: Pardon me, Mr. Chairman, but that statement is absolutely erroneous. I never offered the hon. member a solution or told him that I would give him a solution.

Mr. Deachman: To the committee.

Mr. Towers: Perhaps I might just interject here that, of course, there is some $2,500,000,000 of debt-free money in Canada to-day.

Mr. Deachman: Debt-free?

Mr. Towers: Yes, absolutely.

By Mr. Jaques:

Q. Is it not a fact that all money originates as a creation of the banks and is only issued through industry as a debt?—A. The fact remains, of course, that the depositors of Canada own some $2,500,000,000 in bank deposits to-day which are entirely free from debt so far as they are concerned.

[Mr. Graham Ford Towers.]

Q. But they only came into existence so far as they are concerned in the form of an investment on which interest had to be paid?—A. Yes.

Q. Therefore they are not debt-free money?—A. Interest is not paid by the depositors, though.

Q. It only came into existence on the basis of interest being paid by somebody?

By Mr. McGeer:

Q. Not debt-free in so far as the banks are concerned, is it?—A.No.

Q. Debt-claim money as far as the banks are concerned?—A. Yes.

Q. There is such a thing as debt-free money, and that is national currency in the form of subsidiary coins?—A. And bank deposits.

Q. Well, of course, bank deposits are debt-claim money as far as the banks are concerned. The subsidiary coin is debt-free money.—A. So far as bank depositors are concerned they have $2,500,000,000 which is not only debt-free but earns them a certain amount of interest.

Mr. TUCKER: Mr. Jaques is talking of debt-free money in so far as the state is concerned. It does not have to pay any interest after the money is issued.

By Mr. Jaques:

Q. I tried to show any debt, of course, requires a creditor and a debtor. So if there is $2,000,000,000 which is owned by certain people in Canada it is also owed by certain other people?—A. Yes.

Q. And since the banks are the sources of that money then in the last analysis the banks must be the owners of all debt?—A. Oh, no. The banks own sufficient in the form of investments and loans to be able to repay their depositors; but, of course, that only represents a small portion of the total debts and credits of the country.

Q. Let me put it this way: since that money has been born as a debt, if all debts were repaid there would not be any money?—A. Money I would regard as a medium of exchange, and quite distinct from the phrasing of debts and obligations in terms of money—

Q. Well, what we call money, or what we use as money is a debt, and if all debts were repaid we would have no money. I think that is correct?—A. I must say that I do not follow that. Would not debts be marked off against each other in that case? I do not quite follow what that implies.

Q. I have here a quarter which at the present time I own; but that came out of somebody's taxes which he paid on his wages or his salary or his dividends, and that money which was used to pay those wages or salaries or dividens was borrowed from the banks for that purpose or somebody somewhere took a quarter to a bank. I think that has been admitted?—A. No. I must say that I apologize. I have got tremendously confused as to what we are driving at. If there might be some question to which I might formulate an answer I would get along better.

Q. Here is a statement contained in the congressional record at Washington by Mr. Binderup. He says:

> Yes, truly, truth is stranger than fiction. We are basing our money on the people's debts. If we pay our debts, our money disappears, and we will all go broke. And if we do not pay our debts, the sheriff takes all we have and we will also go broke; so, in principle, it merely means that we are damned if we do and damned if we don't.

Now, you mentioned the velocity—A. I think when I go over the record of to-day's procedings that I had better try to put down something in respect to that, if it meets with your approval, Mr. Jaques?

Q. Oh, quite, yes. I do not expect you to answer any question that you do not understand.

The CHAIRMAN: It is 1 o'clock. When shall we meet again? I understand that some of the members would like to be in the house this afternoon.

The Committee adjourned at 1 p.m. to meet again on Tuesday, May 9, at 11 a.m.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 15

TUESDAY, MAY 9, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

TUESDAY, May 9, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Cleaver, Coldwell, Deachman, Donnelly, Dubuc, Fontaine, Hill, Howard, Jaques, Kinley, Kirk, Landeryou, Leduc, Mayhew, Moore, Stevens, Taylor (*Nanaimo*), Tucker.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Examination of Mr. Towers was continued.

In the course of his examination by Mr. Jaques, Mr. Towers suggested that he be allowed to answer some of Mr. Jaques' questions by incorporating in the record an extract from the Report of the Royal Commission appointed to enquire into the Monetary and Banking Systems of Australia, dealing with the Douglas Social Credit theory.

On motion of Mr. Howard,

Ordered,—That the said Report be printed as an appendix to this day's evidence.

On motion of Mr. Cleaver,

Ordered,—That the following correction be made in the printed record, viz:—

On page 361, fourth line from the bottom, delete the word "non" before the words "revenue producing public works."

At 1.15 p.m., the Committee adjourned until to-morrow, Wednesday, 10th May, at 11 o'clock a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons, Room 277,

May 9, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The Chairman: Order; Mr. Jaques has the floor.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Mr. Jaques: Mr. Chairman, the reporters complained that they could not hear very well yesterday, and I particularly do not want that to happen.

Mr. Towers: Excuse me, Mr. Jaques. Perhaps before we commence I should say there were various questions which were raised at the last meeting of the committee. We have not had an opportunity to get answers to these questions prepared, but we will have them ready for the next meeting of the committee.

Mr. Cleaver: While you are speaking of questions, I should like to correct an error in the question that I asked on page 361 of the committee's minutes on Thursday, May 4. Would you please strike out the word "non" before "revenue-producing public works." My question was in regard to revenue-producing works.

By Mr. Jaques:

Q. Now, Mr. Towers, I think we agreed yesterday that all money which the people have to spend is derived from bank loans, and is distributed through production by way of wages, salaries and dividends?—A. I would put it this way, that the medium of exchange is supplied partly by the central institution, namely the Bank of Canada, partly by the government in the form of subsidiary coin and partly by the banking system.

Q. I believe the figures are that 95 or 96 per cent is bank credit?—A. I thought the percentage was a little less than that.

Q. Roughly?—A. The amount represented by bank deposits in Canada, $2,500,000,000, is very much larger than either of the other two sections of the medium of exchange which I have mentioned.

By the Chairman:

Q. Would you call that bank credit?—A. I would call it bank deposits.

By Mr. Jaques:

Q. I am not criticizing at all.—A. No.

Q. I am merely saying that the vast majority of the money which the people have to use is derived from bank credit?—A. Is derived from the operations of the banks in purchasing investments and in making loans.

Q. Loans to producers?—A. Loans to all people.

Q. Well, practically it is through production. I am not criticising at all; I merely want to— —A. Yes.

Q. Only the principal is distributed?—A. I am not quite sure that I understand that, Mr. Jaques. You mean—

Q. If I am a producer and I borrow $100— —A. Yes.

Q. I receive $100.—A. Yes.

Q. But I have to pay back $100 plus $6 or $7 or $8 interest, represented by percentages.—A. The latter figure being higher than is now charged; say 6 per cent. However, it is only a question of figure.

Q. Plus interest.—A. That 6 per cent or whatever the rate might be is an interest charge which you pay to the bank, and which the bank uses to cover its operating expenses to pay interest to depositors and so forth.

Q. I am quite willing to call it a service charge if you like; but where does it come from?—A. It comes from the activities of the borrower who we will assume has been able to use the money which he borrowed for productive or other purposes which suit his needs, and as a result of which he has been able to make a profit. There will be times when he does not make a profit and this may involve bad debts. If he has made a profit he will have coming to him from the deposit accounts of other people sufficient to pay those interest charges to the bank. The bank then spends these interest charges in the way that I have mentioned for operating expenses, interest to depositors, and so forth, returning the amount so paid into the general flow of the circulating medium.

Q. Yes; but just the same no private individual can create money and therefore the interest which he has to pay in addition to what he borrows—and when I say "he," I mean all borrowers—can only come from another bank loan.—A. No. I think you are neglecting that circulation of the medium of exchange between different people. When one person pays in to another the flow of circulation continues, so that you have a constant circular movement of the medium of exchange, otherwise known as velocity.

Q. Yes; but nobody can create money and money does not breed; then if the people of Canada borrow $100,000,000 or $100,000,000,000 or $100, it does not matter which, call it $100 for convenience, they get $100. That is all they get. But they have to pay back $106. Where does that $6 come from, unless it comes from another loan and therefore a bigger loan?—A. Let me put it this way: let us assume, as actually the case, that the annual debt charges of the dominion are in the neighbourhood of $130,000,000, and for the sake of simplicity, although it does not change the major argument in any way, I assume the $130,000,000 pertains entirely to debt held in Canada. The dominion government taxes the people. We can apply the income tax, for example, conveniently to the case because it is about the same as the debt charge. It collects $140,000,000 in income tax which people pay into the government from their deposit accounts in the banks; so that the deposits of the public in the banks go down $140,000,000 and the deposits of the dominion government in the banks go up $140,000,000. Then the dominion government uses that $140,000,000 to pay interest to the holders of its bonds. The result then is that the dominion government deposits with the banks go down $140,000,000 and the deposits of the public in the banks go up $140,000,000. In other words, there has been a movement from many thousands of individual accounts into the government account and from the government account back to many thousands of people which movements, other things being equal, leave the sum total of bank deposits the same.

Q. Yes, but if only $100 is distributed and $106 has to be paid back, then that $6 must come from— —A. That would be true if the $6 which was paid back disappeared somewhere; if it disappeared into some other world then there would be a constant drain arising from all interest payments. But in fact no sooner is interest paid in that it is redistributed and put again into the flow of circulation.

Q. Well, I submit that it does not disappear, but it survives as a debt.—A. No; it is instantly returned to other people.

Hon. Mr. Stevens: Mr. Jaques, I wonder if you would let me interject a thought here? I do that because I think Mr. Jaques is on a point that ought to be made very clear.

[Mr. Graham Ford Towers.]

Mr. Towers: I agree, Mr. Stevens, and I wish it could.

Hon. Mr. Stevens: I saw an illustration last night in a pamphlet issued by the Bank of Montreal where they are notifying the people that they will make small loans. They give a number of illustrations. Perhaps this will help you, Mr. Jaques. They record the case of a woman in Alberta who went to the bank and borrowed $50, for which she paid about 4 per cent interest. They give the figure she pays back. We will say for the sake of argument it was $2. She borrowed $50 to buy a cow. She paid the $50 back plus $2 interest in so many months, ten months or something like that. She paid it back selling the milk of the cow. Now, does that not seem to fit the case—

Mr. Jaques: No, Mr. Stevens.

Mr. Deachman: Would it be a question there of time? That at that moment the money was more valuable to the woman than it was to the bank, so they transferred it to her?

Mr. Jaques: I am not speaking of the desirability.

Mr. Cleaver: New productive wealth.

Mr. Jaques: I have asked where interest comes from and people have said to me, well, it is simple. You grow wheat and it comes out of the crop. Mr. Chairman, I have stooked a lot of wheat in my time but I have never found a dollar bill in the stook yet. The money to buy that wheat has to be created and is created as a debt, and I maintain, and I think it is beyond argument, that since all money for practical purposes is created by the banks and issued as a debt, then if the people have to pay back more than they borrow, that extra money can only come from another bank loan, and therefore the debt of any country has to increase, at least by the amount of interest charges.

Hon. Mr. Stevens: Mark you, Mr. Chairman, I really agree that this is a point that should be very carefully and very fully, shall I say, dealt with.

Mr. Towers: Yes.

Hon. Mr. Stevens: Mr. Jaques will agree with me. I do not agree with his analysis; I see his point. I know a great many people hold the view that he holds. Perhaps if you put it in a more extreme way it might help. We will say that the total interest charges of a year are $200,000,000, because if you get into larger figures you get perhaps a better view of the tendency and if, as some argue, that interest charge is a burden on the country which is not dealt with as principal is dealt with, then obviously in a certain number of years you would accumulate to a point where you have an annihilation of resources and value to meet it. I agree with what Mr. Towers is trying to explain, namely that in the handling of the principal new value comes which takes care of the interest and probably more than takes care of the interest and adds to the potential wealth of the country. I interject that because I do believe the point should be satisfactorily disposed of.

Mr. Tucker: If I may be permitted to interrupt, may I say that I believe that this is the point that I believe Mr. Jaques is getting at. His point is that the purchasing power of the country comes into existence by bank loans. You simply start from scratch and say the bank issues $100,000,000 of purchasing power. That is all the purchasing power that has been put out. But a year later the people somehow in order to repay that have to find $100,000,000 to pay the principal back and then some place else they have to find money to pay $4,000,000 of interest. Now, that $100,000,000 was all that was put out, and where do they find $104,000,000 to pay it back? What he is getting at, as I understand it, is if you issue only money in that way and require to pay it back with interest, then at some time you have to issue the purchasing power to pay the interest which means that you have got to go continually further and further into debt.

The CHAIRMAN: Gentlemen, with all due deference to the willingness to explain what Mr. Jaques is driving at, I suggest that Mr. Jaques, who is a very competent scholar on social credit be allowed to explain his own theory.

Mr. JAQUES: Mr. Chairman, I do not wish to labour the point at this moment, but it is of fundamental importance. Presumably, of course, the loans which are extended to the people and which result in production result in an increase in production which, therefore, you may say corresponds to the interest which is paid. But the point is this: that however great or however industrious the people of Canada are, and whatever they may produce, there is one thing which they do not produce, and that is money. As a matter of fact, our whole case is based on shortage, the chronic shortage of money due to a number of causes. This is one of them, though it is one of the minor ones. It seems to me to be past argument that although we have increased wealth, real wealth, we must have under our system increasing debts.

The CHAIRMAN: Order, gentlemen.

Mr. TOWERS: If I could explain it so that it could be understood, as remarked by Mr. Stevens, it would be extremely helpful. It should be one of the simplest of all things to explain, yet I am not rashly confident about my ability to put it in terms which will be readily understandable. However, if it were the case that the payment of interest on loans somehow required a constantly increasing total of money because of the suggestion that interest could only come from new money, would it not also be the case that any service charge should be regarded in the same way? In other words, freight is a service charge. Must the money to provide freight also come from new sources of supply? I can mention, naturally, many other service charges. Would not the same thing apply to them? I can only say again that what you have in mind, Mr. Jaques, neglects completely the fact that this is a transfer from the producer to one of the people who perform services for him. He forgoes a part of his crop in order to pay that service charge. But instead of giving a little wheat to the railway—I am taking wheat farmers for purposes of example—instead of giving a little wheat to the railway and a little to his doctor and dentist and some to his bank for interest, he does the thing in terms of money; but in making these money payments nothing is withdrawn from the sum total of the money in the country. Some is transferred from one person to another. First of all, the sum is transferred to him from other people when he sells his total crop. Then he transfers some of that back again to other people, to the railway, to the bank and so forth, so that there is a constant interchange between people, but in that process no amount of interest payment disappears into thin air, or involves, so to speak, a constant drain on the money supply.

By Mr. Jacques:

Q. No, it does not disappear, but you will admit that the debts of all countries are increasing at an amazing rate?—A. All countries? That is a broad statement.

Q. Well, the civilized ones, the industrial ones?—A. If you take the situation in England from 1931 until fairly recent times, there was not, as I recall it, any particular increase in the English public debt.

Q. Then, if it is not in the public debt, it is in the private debts.—A. That is another matter.

Q. It is one or the other.—A. If that private debt is represented by productive assets, do you see any harm in that? An alternative to that, of course, would be to provide a system where 1,000 or 5,000 individuals decide that they won't consume all their earnings; that is, they would not spend them all on consumption goods. They might club together for the building of a factory, some contributing a few planks and boards, and others some bricks, and others

[Mr. Graham Ford Towers.]

various wheels for the machinery. When that factory is in operation, each one of those 5,000 people would have a claim on a brick or a plank or a piece of machinery. Presumably they would have to agree on the relative importance which each one of those items bore in respect to the factory as a whole. And if the factory was operating profitably they would share the proceeds of the factory's activities in that proportion. But as you can understand, to build a factory in that way, getting a piece of stone from one man and a plank from another and then trying to share up would be an extraordinarily difficult process; so, instead of it being done in that form, it is done in the form of a monetary arrangement. People buy some bonds; they buy some preferred or common stock, and that determines the distribution of earnings but it is just the same as if each one had contributed an item here and an item there.

Had the thing that happened not been phrased in terms of money, I think that you would have agreed that the various people who had contributed their planks and stone and pieces of machinery still had their real wealth. If it was a factory and it was operating successfully, they had real wealth, just as an individual would have it in a well-built house which he found useful. And perhaps you would have said in that case that the debt of the country had not gone up because there was no monetary transaction between the factory and the people. You might have said these individuals have a claim on the factory for a stone or a piece of machinery, but it is a partnership agreement; it is not a debt. We do not mind that. Now, just because for the sake of convenience the thing is phrased in terms of money terms, I do not see that it is bad.

Q. Well, I have quite a lot to get through. The point is this, though, that owing to an arbitrary system of finance or bookkeeping, if you like, the money which is taken from the country does not represent the real facts of the country. Nothing is more obvious to-day than a country such as our own which is immensely wealthy in a real sense and immensely hard up in a financial sense. The two contradict, and we say that it is because money does not reflect facts. It is an arbitrary system and does not reflect the facts. However, I do not wish to labour that as I have not the time just now.

The CHAIRMAN: Take your time, Mr. Jacques. You have time.

By Mr. Jaques:

Q. There is a question, Mr. Towers, that I think is important. You are familiar, of course, far more than I am, with company statements, balance sheets.—A. Yes.

Q. They always include the physical assets of the company. Your own, I imagine, would put in the bank. They would put down the buildings and plant and the balance sheet of a factory would contain the physical assets, and it would not be considered sound not to do so. Now, in the national balance sheet which we call the budget there is simply the financial statement. There is no statement of the physical assets or the wealth of the country, so that we never know from one year to another whether the wealth of Canada is increasing or decreasing; we never know. Mr. Dunning will make a statement giving us the balance one day or the other, but we have nothing to compare that with to know whether the country has increased in wealth in the past twelve months or whether it has decreased, and we have no way of knowing.—A. Of course, estimates are made of the national income, are they not?

Q. We think that there should be a national statement of the physical wealth of the country so that we could relate the two.—A. I think that the national income is the only important factor.

Q. The result is this: we say it ought to be a great deal higher than it is, and it would be if those facts were taken into consideration.—A. I do not think that setting down on a piece of paper an estimate of the valuation of Canada would affect the national income one way or the other.

Q. It would in this way: our people say that we cannot afford this and we cannot afford that. Well, how do we know we cannot afford it when we do not know the physical wealth of the country, the value of the country—A. I do not think that such an estimate would affect any action which might be taken to increase production and so to increase the national income.

Q. You do not think it would engender a little confidence?—A. No, I do not think so.

Q. Well, all right; we shall leave that. Now, you mentioned the velocity of circulation. That, of course is, another point of great importance. I have heard Mr. Dunning say many times in the house that it is not the amount of money but it is the velocity of its circulation that is important. Just exactly what do you men by "the velocity of circulation"?—A. I mean the activity of business which will be reflected in a more extended use of your medium of exchange, therefore more frequent transfers between individuals. For example, as we know, the volume of business which was done in Canada in 1929 was very high—

Hon. Mr. STEVENS: Represented about 22 velocity.

Mr. TOWERS: I have forgotten the figure. It was very high, both from the point of view of production and perhaps less satisfactorily also from the point of view of speculation. That very large volume of business was done with an absolute amount of medium of exchange less than the amount which is now available. In other words, it is often the case that an increase in volume of business can be financed with a smaller amount of money, and that is because the increase in velocity more than offsets any decline in the absolute amount of money.

By Mr. Landeryou:

Q. Is it a fact that there might be a larger volume of bank deposits moving; there may be a larger amount?—A. Increased velocity means just that.

Q. I know, but there are $2,500,000 of deposits.—A. Yes.

Q. To-day. There was not so much, you say, a few years ago, but there might be a greater portion of the total deposits moving, transferring goods and services than there is to-day. It might not have been an increasce in velocity but it might have been an increase in the amount of money.—A. Is not that the same thing?

The CHAIRMAN: No.

Mr. LANDERYOU: The same result but not the same thing.

The CHAIRMAN: I would suggest you allow Mr. Jaques to continue without interruption as far as possible.

By Mr. Jaques:

Q. The general understanding of the velocity of circulation is something like this: a man goes into a store, we will say, and buys $50 worth of goods, and then if the velocity is great the store keeper goes into another store with the $50 and buys $50 worth of goods from the other store, and then that store keeper goes into another store and buys $50 worth of goods and so on. So that $50 may buy $500 worth of goods.

I think that is the popular idea; certainly it is Mr. Dunning's idea of the velocity of circulation, which to us is a fallacy. I should like to illustrate it with a little story, if I may, one which I have used before. Pat and Mike, two Irishmen, had a few dollars which they invested in a keg of beer. When they paid for the beer they had 10 cents left, and they thought they would go to some running races and retail the beer. On the way to the races, it being a very hot day, they became very thirsty. Pat, who had the ten cents, said to

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Mike, "Sell me a glass of beer." So Pat pays the 10 cents over to Mike and gets the glass of beer. Then Mike said, "I am thirsty, too; sell me a glass of beer." And he pays the 10 cents back to Pat. As I say, they were Irishmen and it was very hot. You could say that there was a very great velocity of circulation, and in time the beer was all gone. Now, the 10 cents had the effect of consuming the keg of beer. That is true. But how are they going to replace the beer? They have merely drunk up the capital.

Mr. Deachman: Borrow money from the bank.

Mr. Jaques: No; their credit would be no good.

Mr. Deachman: How would the social creditors solve that problem?

Mr. Jaques: I am dealing with the velocity of circulation.

Hon. Mr. Stevens: What is your answer to that very complex problem?

Mr. Jaques: The answer is that the real velocity of money is the circuit of money in and out of the banks.

I might go into a store and buy $10 worth of goods from the storekeeper. If the storekeeper is selling goods on a 10 per cent profit, 90 per cent of the $10 does not belong to him, or, if it does, is represents his capital. In one case he owes it to the wholesaler, and if the $9 is his own money he has to use that to replenish his stock. He can spend the profit, but that is all.

The Chairman: Mr. Jaques, may I break my own rule?

Mr. Jaques: Yes.

The Chairman: I would make this suggestion: That the beer was owned by Pat and Mike, the two of them being in partnership, and Pat drank up his share of the capital and Mike drank up his share of the capital, and that is all there was to it.

Mr. Towers: I think they only paid the 10 cents backwards and forwards to each other for fun.

Mr. Jaques: That is exactly what happens. It is a perfectly serious and proper illustration.

Mr. Cleaver: There is a difference in ownership.

Hon. Mr. Stevens: Mr. Jaques, supposing that when Mike paid over the 10 cents the first time, Pat, being the custodian of the partnership assets, had taken the 10 cents he received from Mike and gone and bought for 8 cents another pint of beer, the nartnership would be 2 cents ahead; is that not right?

Mr. Jaques: I used what might be thought a comical story, but that is absolutely true. Take periods of boom in industry or in the country when the so-called velocity of circulation is great, how long do they last? They come to an end. Why? Because the money is used to consume goods and not to retire debt, that is why.

The Chairman: Mr. Jaques, let us presume that Pat and Mike were saloon keepers, that they were in the business of selling beer, but that instead of having customers they drank up the keg of beer?

Mr. Jaques: That is exactly what these people do.

Let us put in this way: Supposing I have a dollar and that is all the money there is in this room. Now, we each want to buy a hat and we each have a hat. Now, I will buy my neighbour's hat and I get the hat and give him the dollar. He takes that dollar and buys his neighbour's hat. If the velocity of circulation is great enough, that dollar will buy every hat in this room, but it will only pay the manufacturing costs of one hat and it only liquidates the debt on one hat.

Mr. Towers: Mr. Jaques, in those circumstances I think only one new hat has been bought.

By Mr. Jaques:

Q. No, there would not be one new hat because they are all old hats.—A. Well, in that case I think the people have just swapped hats; no one has got a new hat.

Q. That is exactly true, Mr. Towers, and that is exactly what happens with this so-called velocity of circulation; they swap goods but they do not pay the debt which was created to produce those goods. I think that is self evident.—A. Sorry; I cannot agree.

The CHAIRMAN: Go on, Mr. Jaques.

Mr. TUCKER: I think, Mr. Chairman, Mr. Jaques should put on the record all of these stories so that they may be available to us.

By Mr. Jaques:

Q. The argument is perfectly sound. The idea that $1 can liquidate $100 worth of debt because it changes hands one hundred times is a fallacy. $1 will liquidate $1 worth of debt and that is all.

Hon. Mr. STEVENS: But that $1 may serve twenty different services.

Mr. JAQUES: It will only liquidate $1 worth of debt to the institution where it originated and where eventually it must return.

Mr. CLEAVER: Do you suggest that a dollar can only be used once and is then valueless?

Mr. JAQUES: No. The point is this: That all money is issued in respect of production, and the money goes out in the form of wages, salaries and dividends in the production of those goods.

Mr. CLEAVER: Is not money simply issued, then, as a convenient token to assist in the exchange of goods?

Mr. JAQUES: Yes, but I am simply telling you how money functions. The people who receive these wages, salaries and dividends take the wages, salaries and dividends to the storekeepers and buy what they need. As soon as that money reaches the retail counter it is on its way back to the place from whence it started.

Mr. CLEAVER: Oh, no.

Mr. JAQUES: Then they are not paying their debts.

Hon. Mr. STEVENS: It goes to the wholesaler and from the wholesaler to the manufacturer, and so on.

Mr. JAQUES: No, it goes to the retailer and then to the wholesaler; they take the profit out and the balance goes to the manufacturer.

Mr. CLEAVER: And the wholesaler uses it to pay his wages.

Mr. JAQUES: The wholesaler sends it to the manufacturer and the manufacturer has to pay his loan from the bank.

Mr. CLEAVER: And his wages and his taxes.

Mr. JAQUES: He has paid his wages when he has distributed the money. That is how money gets in circulation. It comes back to the manufacturer—

Mr. CLEAVER: Yes, but—

The CHAIRMAN: I am going to suggest that Mr. Jaques be allowed to proceed with his investigation.

Mr. TOWERS: I think if I may interject something there, that under the circumstances you mention, one would expect to find over a period of years, that bank loans were constantly going down and the volume of medium of exchange was being reduced, or else that they would be constantly going up and the medium of exchange being increased for the purpose which you mention. In fact, do you not think that what happens in the ordinary course of events is

this: That as people who have borrowed money for production purposes sell their goods and repay the loan someone else is at that particular moment borrowing fresh money to go ahead with the process of production?

Mr. JAQUES: Oh, yes, I agree with that.

Mr. TOWERS: I think that one of the main troubles in the theories you mention is that it is founded upon an assumption that total bank debts are always on the way down.

Mr. JAQUES: I would say the reverse, that they are always on the way up.

Mr. TOWERS: I did give that alternative, either on the way down or up, but, in fact, we know that that is not the case.

By Mr. Jaques:

Q. We agreed yesterday that the banks were doing their level best to expand their loans but that they could not entice borrowers to borrow their money. That is a fact, is it not?—A. Under existing conditions that is largely the case, yes.

Q. Now, why? I can speak from experience. The reason I would not borrow money is simply that I do not see my way clear to repay it. In other words, I cannot find a market because there is no chance of selling what I produce for enough money to pay back the loan plus the profit.—A. It is not the interest rate really which disturbs you, then, is it?

Q. No, not altogether. The banks must be paid, of course.—A. No, but I mean, if you saw an opportunity for profitable enterprise, and there are still a good many people in the country, fortunately, who do, you would be willing to borrow money and you would not have any fears in regard to getting enough out of the profit to be able to pay the interest charge.

Q. Yes, quite, so long as there is expanding debt and expanding production, so long as they are advancing together we can carry on. But after a time, as I say, owing to the fact that industry cannot distribute enough money so that the people can buy what they produce, after a time debts mount up, credit gets top-heavy and then the banks have to call their loans and we get into what is called a depression.—A. May I say there, Mr. Jaques, that we were speaking about the Irish commission the other day and I believe it was you who drew the analogy about brewers and distillers sitting on a commission to appraise the virtue of temperance.

Q. Yes.—A. There is also the Australian commission whose report on social credit is perhaps even more detailed from some points of view than that of the Irish commission. It does seem to me that a considered answer to the careful report made by these two commissions is a much better form of upsetting their argument than a suggestion that they were prejudiced. If they were prejudiced and made a wrong report, surely that could be contradicted. Surely the reports stand on their own feet, irrespective of who made them.

Q. I might remind you, Mr. Towers, that the greatest astronomer that ever lived refused to believe that the earth went round the sun. The man who first suggested it and stuck with it was put to the torture because he upset orthodox opinion.

Mr. TAYLOR: That is being done every day.

By Mr. Jaques:

Q. And in no subject under the sun is there so much prejudice as there is concerning money. For instance, I said yesterday that the hostility to the statement that banks create money is a fact, which I know you will not deny for a moment, and yet we have the general manager of the Bank of Montreal, when he was before this very committee, swearing that they did not do that,

that they lent their depositors' money.—A. Is it not possible, though, that it would be a good idea to put down in black and white a contradiction of the reports of these two commissions? Would that not define the argument more specifically than has been possible hitherto?

Q. In my experience, Mr. Towers, and by this time it is pretty wide, I find it impossible, if a man has ideas on money, nothing short of, what shall I say—

The CHAIRMAN: An earthquake.

Mr. JAQUES: —of conversion will alter those ideas. You can point out facts but they do not count.

Mr. CLEAVER: How would it be if we had some facts?

Mr. JAQUES: I have given you some facts.

By Mr. Jaques:

Q. You have said there was no point in the government creating money and issuing it debt free, because if they borrowed the money from the public that debt would be an asset?—A. I noticed that in some of the press reports that reference, naturally dealt with very briefly, has caused some surprise. Of course, you will remember that I pointed out that what is someone else's debt is necessarily someone else's asset.

Q. Quite.—A. That is a very simple conception; i.e. that taking the people of Canada as a whole they owed themselves this money. I did not suggest that a tremendous accumulation of public debt could not be a very burdensome matter, indeed and a very dangerous thing. It can be, because it can distort the economy; it can make for a very bad distribution and for all kinds of jars in the machinery, so to speak.

Q. I was going to suggest that if debt is an asset then there is no point in balancing the budget?—A. I do not think that follows. I did not say that a debt was an asset of the debtor. It is his liability. But surely it must be an asset of someone else because it is owed to someone. I would like to look behind that debt and see what the debtor has to show for the money which he has borrowed and spent. If that debtor is in effect a factory or enterprise which has to show for the money spent a going concern, why, the debtor is all right and the creditor is owed money by a debtor who has a good asset.

Q. I agree with that entirely, and that is the reason I am suggesting that Canada, which in a national sense is a debtor, should have a statement of what is behind Canada physically, which we do not get in our budget. If we had a statement of the physical assets of Canada we should be able to see whether our national debt is sound or whether it is not. As it is, all we get are the figures.

Mr. DEACHMAN: Would you mind telling me just for my own information why you are not satisfied with the national income as an estimate of the assets, because we have unquestioned assets in the form of fish in the Great Slave Lakes, but they are not available? The national income is something which is available to meet obligations. Why is that not satisfactory?

Mr. JACQUES: Because we think that the national income could and should be a great deal bigger than it is. We say when we look at the figures, "We cannot afford any more. We have got to cut down."

By Mr. Jaques:

Q. Mr. Towers, you are familiar with the May report which I believe was issued in Great Britain by the royal commission headed by Sir George May, I believe, in 1930 or thereabout?—A. Some time like that.

Q. That represents the considered opinion of the ablest men, I presume,—orthodox men—whom the government were able to get to advise them, and their

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advice was to cut down on the expenses of all kinds. The dole was cut, the allowance for pensions was cut and everything else was cut down. You will remember that the result of that was to bring the country almost to a revolution. Now we are told by the same economists, I suppose, that the opposite of that policy, the most tremendous expansion of money on armaments, is, so far from ruining the country, a great benefit and is even reflected in Canada. The same lot of men advocated absolutely opposite policies.—A. Who says that it is of great benefit to the country?

Q. I thought that was said here, that the result of the armament policy was to lower the unemployment figures and to stimulate business generally.—A. I think you will find that the English people are going to have to contribute to that armament program in foregoing the use of many things which they would otherwise have used, and that England to a certain extent is likely to be living on her capital for the next few years.

Q. That is, her financial capital?—A. That is her capital in the shape of foreign assets.

Mr. MAYHEW: In other words, she would be like the two Irishmen drinking the beer.

By Mr. Jacques:

Q. What would you say is the precise object of industry?—A. Production.

Q. The production of goods and services?—A. Yes.

Q. It is not the making of money or the creation of work?—A. In the production of goods and services I assume one includes work.

Q. Well, it is a necessary consequence, of course.—A. Yes.

Q. I quite agree with you, and I am glad to hear you say that the prime object of industry is the production of goods and services.—A. Yes, and their exchange for other goods and services.

Q. Quite, and that the sanest economy would be the economy which would give us the greatest production with the least possible amount of work and worry?—A. Yes, I think that is a fair statement. It would be a question, of course, for a philosopher to decide on the exact amount of leisure which is most beneficial.

Q. Now we come to the crux of the matter, and that is this, as we claim, the chronic shortage of purchasing power.

Mr. HOWARD: Of what.

By Mr. Jacques:

Q. The chronic shortage of purchasing power or money in the people's pockets. Now, Mr. Towers, you are familiar, of course, with the statement of John Stuart Mill, on which I believe the orthodox economy is based, where he says:—A. Long times have passed since those happy days, of course.

Q. Mr. Mill states:—

> Let us suppose that the quantity of commodities produced is not greater than the community should be glad to consume; is it, in that case, possible that there should be a deficiency of demand for all commodities for want of the means of payment? Those who think so cannot have considered what it is which constitutes the means of payment for commodities. It is simply commodities. Each person's means of paying for the productions of other people consist of those which he himself possesses. All sellers are inevitably and ex vi termini buyers. Could we suddenly double the productive powers of the country, we should double the supply of commodities in every market; but we should, by the same stroke, double the purchasing power.

Now, I am sure Mr. Deachman will agree with that.

Mr. DEACHMAN: That sounds very reasonable.

By Mr. Jaques:

Q. That is perfectly sound. That is why we claim there is a chronic shortage of purchasing power.

Mr. CLEAVER: Mr. Jaques, is it a chronic shortage of purchasing power or is it a mal-distribution of purchasing power?

Mr. JAQUES: I will agree that there is a mal-distribution which arises out of the other, but if all the money were evenly distributed—let us suppose that all the wages, salaries and dividends which are distributed in Canada were evenly distributed—

Mr. CLEAVER: You could not possibly have a shortage of purchasing power.

Mr. JAQUES: Oh, but you could.

Mr. CLEAVER: Have you any facts to establish that?

Mr. JAQUES: I have the argument which I have just read.

By Mr. Jaques:

Q. If I may put it this way: You will agree, of course, Mr. Towers, that every birth is a death?—A. Every which?

Q. Birth is a death?—A. That is a little too abstruse for me.

Q. That is, all sellers are inevitably and ex vi termini buyers? I say all birth are inevitably deaths.—A. There is an interval between the two, though.

Q. Should we suddenly double the births of the country we should in the same way double the deaths.—A. In due course.

Q. Then how is it possible for the population of any country to increase? —A. Perhaps my modesty, Mr. Jaques, prevents me from explaining that to the committee.

Q. Well, I will respect your modesty, but, seriously, that is saying the same thing. All births are inevitably ex vi termini deaths. There is no argument against that. Could we double the births of the country then inevitably we must have double the deaths, because everybody born must die. How, then does the population increase?

Mr. CLEAVER: Will you admit it does?

Mr. JAQUES: Of course, you cannot deny that. The reason is this: That the rate of flow of births is greater than the rate of flow of deaths. That is how it is done.

The CHAIRMAN: No, not necessarily. Let me give you a little illustration. I happen to have the figures at hand. In the year 1880 the expectation of life in England was around forty years, and now the expectation of life in England is sixty-one years. So that people are living longer.

Mr. JAQUES: Quite.

Mr. LANDERYOU: That is the same thing.

Mr. JAQUES: That is the explanation.

The CHAIRMAN: The birth rate is declining so rapidly that England is facing the menace of depopulation. You can prevent birth but you cannot prevent death. You can only defer death, and by deferring death population has increased.

Mr. JAQUES: Only for a time.

The CHAIRMAN: Only for a time, but the time will come—

Mr. JAQUES: The point of the argument is this. You members can take this lightly, if you like.

The CHAIRMAN: Oh, no, they are not taking it lightly.

Mr. JAQUES: I have sat in parliament for four years, and I think the chairman will say that I have religiously attended the meetings of this committee.

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Mr. CHAIRMAN: I say it.

Mr. JAQUES: I can only say that I have not had any enlightenment at all on the problems we have to face. I have given eight years continuous study to this subject to the exclusion of everything else, and I want to say this, that of all the schemes I have examined, of all the books I have read and of all the men with whom I have discussed the matter, this is the only rational explanation of the condition in which we find ourselves. It does fit the facts, and I say that the orthodox economist is wholly occupied with twisting the facts to fit theories.

The CHAIRMAN: Mr. Jaques, to-day is your day; you go ahead and explain your system.

Mr. TOWERS: Mr. Jaques, if I may interrupt just a moment, Mr. Chairman, I hesitate to suggest that the record, which is already a pretty long one, should be further extended by printing in toto the report of, say, the Australian commission, but would it meet with the approval of the committee and of Mr. Jaques if the particular section which deals with shortage of purchasing power were read or put in the record?

The CHAIRMAN: Put it on the record?

Mr. CLEAVER: Put it on the record.

Mr. LANDERYOU: I have a suggestion to make, too. There seems to be in the minds of the members of the committee an endeavour to have us make a detailed explanation as to how we would meet the flaws in the present financial system that we have.

Mr. DEACHMAN: You promised it.

Mr. LANDERYOU: I also am confronted with the statement made by Mr. Deachman day after day that we promised it. Now, it was promised by the Liberal party that they would issue money and credit in terms of public need, but we have never had an explanation of what they meant by issuing money and credit in terms of public need. We have never had a comprehensive analysis of just what they considered to be the flaws in our economic system. They have never produced any detailed plan of why there should not be poverty in a land of plenty.

The CHAIRMAN: Pardon me, Mr. Landeryou, Mr. Jaques is examining the governor of the bank. I have no objection to an interruption, but I have an objection to a speech.

Mr. LANDERYOU: I would suggest that there should not be so many objections from the members of the committee.

The CHAIRMAN: I agree.

Mr. LANDERYOU: Interfering with him, and not only that, but an interjection by the chairman and interjections by Mr. Towers who is trying to question the witness himself.

Mr. HOWARD: That is not fair.

Mr. LANDERYOU: The actions of this committee are not fair.

Mr. JAQUES: I am perfectly capable of looking after myself. I understand what I am talking about and—

The CHAIRMAN: Hear, hear.

Mr. JAQUES: —and I have been given credit for that from one end of Canada to the other, and I need not say that Mr. Towers is perfectly capable of looking after himself. I am quite sure, however, that he respects my opinions for being perfectly honest and sincere.

The CHAIRMAN: Quite. Proceed, Mr. Jaques.

Mr. JAQUES: But my objection to including the Australian report is this: there is a belief, amounting to certainty amongst the majority of people, that an

orthodox economist is a sort of god. What he says is always right. Well, my experience is that what he says is always wrong, and he is wrong every time. The whole idea is based on a fallacy, and the facts bear out that criticism every time. Whatever they recommend to cure the ills of any country, when these ideas are put into force, they make the conditions worse.

Mr. CLEAVER: How would it be if you demonstrate the fallacy? You demonstrate the fallacy.

Mr. JAQUES: I have shown this morning the impossibility of paying interest except through increased debt. I have shown the fallacy of the velocity of circulation except the velocity of bank loans out and in again to the banks.

Mr. DEACHMAN: If that is what is presented in the other reports then you have answered it in advance. Why hesitate to let the other report go in?

Mr. JAQUES: It is very obvious that the Australian report has behind it the authority of organized finance and orthodox economists. What have I got behind me? A despised—

The CHAIRMAN: No; I object to that.

Mr. JAQUES: I do not mean personally at all.

The CHAIRMAN: Nor your school either.

Mr. DEACHMAN: If you are right you have the truth behind you, and if you have that the winds of doubt shall not prevail against you.

The CHAIRMAN: Proceed, Mr. Jaques. Suppose you proceed.

Mr. TAYLOR: I do suggest that Mr. Jaques should allow this report to go in. It seems to me—and I do not want to take up time—that we have built up our financial system, whether rightly or wrongly. Let us know all about it, let us know all about what people think about it; introduce our own ideas and let the truth ultimately prevail. That is my attitude.

The CHAIRMAN: When Mr. Jaques has finished his examination I suggest that we take the opinion of the committee by vote as to whether the report should go in or not.

Mr. JAQUES: If that is done, I would suggest that the report of the government of Tasmania be included with it, because that government drew up a report in favour of the ideas that I am putting over this morning. That report could be found in the parliamentary library.

By Mr. Jaques:

Q. Now we come to the greatest cause of the shortage of purchasing power. Did you ever consider—of course you have—the effect of savings on the general economy of the country, that is, money through savings?—A. Yes.

Q. Now, would you say that that caused a shortage of purchasing power?—A. No, not necessarily. When there is a desire to save but insufficient opportunities for employing those savings, you will find a tendency towards depression.

Q. You mean that there is a certain point and if you save beyond that point it is going to have that effect?—A. Not that point exactly, because it is in relation to another thing; it is in relation to the demand for savings to be employed for purposes of new production.

Q. Well, now, that is a very important point and there, we believe, is the crux of the matter.—A. I think the Social Credit belief is that that is a continual process; whereas I would say that the correct belief is that it does happen periodically in times of depression, for short intervals.

Q. We admit, Mr. Towers, of course, that so long as bank loans are expanded for capital production or so long as there is a sufficient volume of exports, that the system can carry on, but we know that it can only be temporary.—A. Of course, the expansion of bank loans is quite a different matter

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from the one that we have been speaking of, accumulation and investment of savings.

Q. Yes, I see that. I am going to deal with this question of savings and I know there is a great prejudice against criticising what is known as "thrift." Thrift, you know, in the real sense of the word, means putting anything to its best possible use. It is corrupted to-day to the single idea of saving money and then loaning money out at interest which, as a matter of fact, is condemned in our religion, or was, and legally was condemned right through the history of England up to the time of Elizabeth.

Mr. KINLEY: It was not condemned at the time of the parable of the talents.

Mr. JAQUES: No; there is a distinction between interest and profit. The loaning of money at usury was condemned by law in England almost up to the time of Elizabeth, and the reason is this: history has proved time after time that usury, as Mr. King said, "once in control will wreck any nation." He said that from his knowledge of history.

Mr. KINLEY: How do you define usury?

Mr. JAQUES: Usury is not a high rate of interest, it is any rate of interest. I am speaking in the historical sense. It means the loaning of money at interest, and we distinguish completely, which the socialists do not, between profit and interest. But let me get on with these savings.

By Mr. Jaques:

Q. You agree with me that the vast majority of the money which the people have to spend is distributed in the form of wages, salaries and dividends in the making of the goods which the people ultimately buy?—A. Yes.

Q. Now, taking the orthodox statement that there is a sufficiency, you know what Mr. Mill says? He says:—

> Let us suppose the quantity of commodities produced is not greater than the community would be glad to consume.

That is, glad to buy. If we took that as a fact, what effect does the saving or the refusal to buy those goods have on the movement of them?—A. Well, we are now at that question of shortage of purchasing power and that is one of the reasons why I suggested using that Australian report. I admit that you might say it is a lazy man's suggestion, but after reading that report at various times, I do not think that I can do anything better. I agree with what they say, and I am sure I could not do better myself. Now, if you wanted me to express any opinions on the various points involved in that shortage of purchasing power argument, I would simply repeat what the Commission has said. I can, given time, try to do the same thing in slightly different words and then call it, as it would be in that case, a production of my own; but as I agree entirely with their analysis, there does not seem any point in trying to build up another one which will say the same thing in different words.

Q. Mr. Chairman, then since this Australian report may go on the record, would it be agreeable if I were, as briefly as possible, to put the case from our point of view?

The CHAIRMAN: Certainly.

Mr. JAQUES: I am not dealing with the remedy; I am dealing with the cause of our ills.

The CHAIRMAN: Go ahead; that is your privilege.

Mr. JAQUES: Now, I do not expect you, or anybody to accept these ideas offhand, and I do not blame you for that.

Mr. HOWARD: If they are better than mine, I will take them.

Mr. JAQUES: I do not blame you.

Mr. KINLEY: Is that your opinion you are going to give now?

Mr. JAQUES: Mine, no.

Mr. KINLEY: You are reading from what?

Mr. JAQUES: I do not know that I am going to read anything, but I have here a pamphlet called "Banking and Industry" by A. W. Joseph. Now, Mr. Joseph is not a Social Crediter so far as I know, but he is an insurance actuary and he also took the highest possible mathematical honours at Cambridge University. This little pamphlet contains an address which he gave to the Actuarial Society of Great Britain, and I can only say with all due respect to the Australian commission, he agrees entirely with the—

Mr. LANDERYOU: Could we not have that put on the record the same as we are doing with the Australian report? I have a number of other expressions on Social Credit that I should like to have put on the record of the Banking and Commerce Committee.

The CHAIRMAN: When Mr. Jaques is through.

Mr. CLEAVER: You may read the parts you agree with.

Mr. JAQUES: I believe I can do as well by explaining it; but I merely mentioned that to show that it is a mistake to think that people who have ideas which are known as, I believe, social credit, are ignorant and uneducated.

The CHAIRMAN: We do not hold that, no; we do not hold that.

Mr. JAQUES: Well, there is nothing personal about it.

The CHAIRMAN: Nor against the school.

Mr. JAQUES: I admit I passed my life on a farm; but it is true that some of the ablest men in the world, and some eminent economists, hold these views. There is one right here in Ottawa, Father Levesque, professor of political economy, Laval University.

Mr. CLEAVER: Let us have the views.

Mr. JAQUES: Dealing with the saving of money, if it is true, as the orthodox people claim, that production is consumption and therefore the money distributed in respect of producing goods is sufficient to buy those goods, then it must be true that to the extent that any of that money is saved, that money should—

Mr. CLEAVER: Don't you refuse to recognize a distinction between savings which are hoarded and savings which are immediately put to work again or invested?

Mr. JAQUES: No. Of course, we recognize the difference, but the result is the same, as I shall show you.

The CHAIRMAN: Mr. Jaques, may I suggest that you are rather inviting criticism from the committee as opposed to examining the governor of the Bank of Canada?

Mr. JAQUES: I do not want to be discourteous to Mr. Towers, but I understood him to say that he takes his stand on the Australian report.

Mr. TOWERS: I think it is the most convenient way of doing it. Moreover, I think it is much better to do the thing as a whole rather than try to give what must necessarily be fragmentary answers to various points as they come up. One statement covering the various aspects of the theory would be, I think, much clearer than part answers as one goes along through the various aspects of it.

The CHAIRMAN: You were about to explain your views of savings. I suggest you do that.

Mr. JAQUES: I had no intention at all of being discourteous to Mr. Towers.

Mr. TOWERS: No, I know that.

[Mr. Graham Ford Towers.]

Mr. JAQUES: I understood him to say he would rather not answer in fragments; but in any case his stand would be the stand of the Australian committee.

Mr. TOWERS: I think that would be the clearest and most convenient way of doing it. If you would prefer me to try some other way, I am in your hands.

By Mr. Jaques:

Q. Well, I recognize your difficulty, and the only satisfactory way, of course, would be for me to hand you a written statement and then you hand me a written answer some time later; but then, that would not serve the purposes of this committee; but I should like to put, just as briefly as possible, the theorem of the shortage of money which is brought about by the saving of money. It is evident that if a man saves $50 and buries it in the ground, it must cause a shortage of money.

Mr. CLEAVER: Right; that is hoarding.

Mr. JAQUES: Suppose he buys a security from a bank. When he buys that security from the bank he gets the security.

Mr. CLEAVER: And the money goes to work.

Mr. JAQUES: Does it? That money is cancelled because it formed the contra of that security which the bank held. So far as that cycle of production is concerned, that money is cancelled. True, it goes out again, possibly, but in another loan and therefore another cycle of production. Now we will suppose that the man saves to enlarge his business, and here is the crux of the matter. That saving is made to finance fresh production. I admit I am a poor lecturer, and I only hope that you will make allowances for that; but it is worth while to try to get the drift of this argument, because we are convinced it is the true analysis of what is wrong with the whole world, that is the civilized world.

Suppose I am a businessman; I am a small manufacturer, and I am doing fairly well and I decide to expand my business. I go to the bank, and if I am an honest man and the bank thinks I am competent and there is a prospect of my selling what I produce, the bank will loan me some money to enlarge my factory.

Mr. KINLEY: That is not banking.

The CHAIRMAN: No.

Mr. KINLEY: To enlarge your plant?

Mr. JAQUES: Of course—

Mr. KINLEY: It destroys circulation, and that is the basis of banking.

Mr. JAQUES: I do not say they do at present; that is one trouble. I obtain the loan, and I expend the loan in building the factory and equipping it, and in that process I distribute say $10,000 which I have borrowed for that purpose. The position is this: there is in existence a factory costing $10,000. The public has that $10,000 because it has been distributed in wages and salaries. Now, as you all very well know, the banks do not loan on long terms. I have to repay the bank, and the only way to do that is to form a small company and sell shares. The public then subscribes the $10,000—

Mr. KINLEY: Out of savings.

Mr. JAQUES: Yes. That money, of course, I take to the bank and repay my loan, which is cancelled. The position then is, there is a factory in existence costing $10,000; but the public no longer has the $10,000; they have subscribed for the shares. They have the shares but not the money; the money has been destroyed.

Mr. CLEAVER: No.

Mr. JAQUES: Yes, the money has been destroyed.

Mr. CLEAVER: Maybe 80 per cent of it was paid out in wages.

Mr. JAQUES: Quite; I have said that. But all that $10,000 has been subsequently subscribed by people who saved their money; not necessarily the identical people who got the wages but the public subscribed the $10,000 to buy shares in this new factory, and the promoter used that $10,000 to repay the loan of the bank which is then cancelled out of existence.

Mr. TOWERS: If that process is constantly going on, we come to that assumption which I mentioned before, that bank loans are constantly going down.

Mr. JAQUES: I do not quite see that, Mr. Towers.

Mr. TOWERS: Well, you were saying that that bank loan was cancelled and therefore an equal amount in deposits taken out of the sum total of the medium of exchange. That was the one case you mentioned. If there are a number of those cases, then bank loans and bank deposits must always be on the down grade.

Mr. LANDERYOU: Unless new ones are made.

Mr. TOWERS: Unless fresh loans are made.

Mr. JAQUES: Yes. I have said before, that so long as the banks are financing fresh capital production there is no shortage of purchasing power. We admit that, but that process contains the seeds of its own destruction and comes to an end, and then we have a depression. As you know, bank loans have actually decreased in Canada in the last so many years. I cannot carry figures in my head.

Mr. TOWERS: If the argument is good, it should be good from the commencement of the monetary system.

Mr. JAQUES: All this is hidden, of course, by the amount of outstanding debts which cannot be paid. I should like to get on with this argument to show that. Now, I have got to the position where I paid my loan and the money has been cancelled. I now start production, whatever it is; it does not matter what I am producing. I start production and I go to the bank and get a production loan. Maybe I produce hats, and in the production of those hats I pay out wages and salaries and, I hope, dividends.

Mr. MAYHEW: Usury, would it not be?

Mr. JAQUES: No, it is profit. Profit is totally different from usury. All costs must go in the price. I think you must admit that.

Mr. HOWARD: Yes.

Mr. JAQUES: Whatever it costs me as a producer I must add to form the price of what I have to sell or, as Mr. Landeryou says, go bankrupt. It may be that I am one of the fortunate ones and I not only pay my expenses but I make a little profit which I distribute later on as dividends; and here is the point. To my costs I must add replacement charges. Is that right?

Mr. CLEAVER: Yes.

Mr. JAQUES: I have to accumulate a sum not only to maintain the factory, but by strict bookkeeping methods I have to accumulate a sum to replace my capital when the useful life of the factory—

Mr. CLEAVER: To buy new machinery when the existing machinery is worn out.

Mr. JAQUES: We will take the man, for instance, who is in—

Mr. HOWARD: No; keep to the same line.

Mr. JAQUES: All right. You form—and by strict bookkeeping it is always done—a sinking fund, a reserve fund.

Mr. CLEAVER: Depreciation.

Mr. JAQUES: No, over and above depreciation, because depreciation charges are distributed when a job of painting has to be done or some repairs

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here and there. But I am referring to a sum of money which has to be included in the prices to form the fund which in the end will bring back the original capital which was invested in the factory.

Mr. CLEAVER: To maintain capital at all times at 100 per cent.

Mr. JAQUES: Yes. Now the public, as I have said, has already paid for that factory when they subscribed to the shares of $10,000. The $10,000 has been surrendered. The manufacturer or the producer is collecting that again, but he cannot do it, and if one man does it he does it at the expense of the rest. That is what we call the double circle. But people say,—this is what Mr. Dunning said in the house: he said, these savings are re-invested and they go to work again; but it does not work out that way.

Mr. CLEAVER: I have not heard anything as to why it does not.

Mr. JAQUES: I have just explained it; I do not know whether it is necessary to go through it again or not.

Mr. CLEAVER: At the end of the replacement period, if the plant has been set up correctly, when your machinery is worn out you have 100 per cent replacement on hand to enable you to buy new machinery.

Mr. KINLEY: You have saved in the meantime to buy it.

Mr. JAQUES: I am not saying anything about the desirability of doing that; I am talking about the impossibility of doing it.

Mr. CLEAVER: I do not see anything impossible in that.

Mr. TOWERS: If every single factory in the land were doing exactly the same thing, that is, allowing their machinery and plant to wear out and doing nothing about it until the moment when it finally fell to pieces and then they all tried to build new factories and machinery at one moment, the uneven process that you mention would be likely to take place; but, of course, I think it is the case that the process of replacement and of building new machinery is one which is constantly taking place.

Mr. JAQUES: Mr. Chairman, may I read just a short passage from Mr. Joseph, who deals with this very point, the accumulation of capital, and it is the crux of the whole thing. He says:—

> How is capital accumulated (by which I mean money capital) and where does it come from? If gold is mined and brought to this country, fresh money has entered and can be used to form capital.

You will agree with that, Mr. Towers?

Mr. TOWERS: Excuse me, Mr. Jaques, I missed that point.

Mr. JAQUES: He says:—

> How is capital accumulated (by which I mean money capital), and where does int come from? If gold is mined and brought to this country, fresh money has entered and can be used to form capital.

Mr. TOWERS: I would define capital as useful assets of the country. I think he is referring to the medium of exchange.

By Mr. Jaques:

Q. Yes. He says here, "How is capital accumulated (by which I mean money capital), and where does it come from?"—A. Medium of exchange.

Q. Yes.

> But there is many times the amount of capital in the country than there is gold. Where else can it come from? To a limited extent the treasury can make money by the issue of silver coins, such as jubilee crowns. But that is not enough. In the main the money to form capital can only come as the credit entry which balances debt to the banks. Now

> the distinguishing feature of capital is that it is money used primarily not for the purpose of helping the distribution of goods and services, but for obtaining a control of the means of production so that it can increase itself. To take an example of how the accumulation of capital causes a deficiency of purchasing power, consider a manufacturer who has accumulated profit which he has placed to reserve and who now wishes to extend his factory. In the first place, by accumulating his reserve he took from the public more money than he had distributed.

Now, that is obvious, for unless he takes back more than he gives out he cannot make a profit.—A. In what form would he accumulate his reserve?

Q. A credit on the books of the bank which, for our purposes is money.—A. Yes. Let us assume that he does that. Then if the process was going on on a scale which would serve to cause a depression, you would find in that case not that the total volume of bank deposits was going down but that their velocity was going down, and you would find that capital development was not taking place in the country to an extent which would provide activity or prosperity. As I said before, if all concerns in the land were attempting to do what you suggest at one and the same time, you would find rather an unfortunate result. The result would be such that pretty soon they would not be able to accumulate any reserves for depreciation, because their sales would be knocked so low that all they would have would be losses. If the process you mention went on, they could not earn depreciation.

Q. No; that is the trouble and they get into difficulties and they then go bankrupt.—A. On that basis, though, Mr. Jaques, if earnings which provide for the depreciation which you mention caused depression, then that would eliminate any earnings for depreciation. Then all the concerns would go bankrupt. The monetary system has been operating in just the way that it does now for, speaking of modern times, one hundred years or more. Therefore, I cannot understand why on the basis of the sequence of events which you mention there are any solvent concerns in the world to-day.

Q. Well, the answer to that, of course is, that there are palliatives.—A. And those palliatives have built up the modern world.

Q. Yes, and it is now about to collapse, or I will not say "collapse."—A. I never believe in permanent collapse; I think that the troubles now are rather of a political than a monetary kind.

Q. I would say that the system has collapsed to the extent that a million people in Canada are now on relief.

Mr. LANDERYOU: Would you suggest, Mr. Towers,—

The CHAIRMAN: Order.

Mr. LANDERYOU: —that we vote out the Liberals and—

Mr. TOWERS: When I said "political," Mr. Landeryou, I was referring to the world.

By Mr. Jaques:

Q. The great palliative, of course, has beeen foreign trade which is financed, as you will agree, mainly with foreign credits?—A. No.

Q. Well, it is in England, anyway.—A. Oh, excuse me, Mr. Jaques. It is either an interchange of goods or, to a certain extent in the case of England, involves payments on capital which they lent in earlier years for the development of various countries.

Q. Well, every country tries to export as much as possible and to import as little as possible?—A You mean by that?

Q. The so-called favourable balance of trade.—A. You mean all countries have a favourable balance of trade.

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Q. They cannot all have a favourable balance of trade, but I think they would like to.—A. I do not think so. I do not think England has any desire for that so-called favourable balance of trade.

Q. I thought that was the great desire.—A. Oh, no. England has no thought of that.

Q. England has had a favourable balance of trade.

The CHAIRMAN: You are speaking of merchant's balances.

Mr. JAQUES: Yes.

Mr. TOWERS: She has not.

By Mr. Jaques:

Q. It is the result of it in the past.—A. Oh, in the past she lent machinery, she lent services and various things to build up other countries and to build up industries in other countries. She is now getting earnings on those investments and has, as a mark of her prosperity, a so-called unfavourable balance of trade. There are various countries which are in the same position. The island of Barbados in the West Indies is an interesting example of that.

Q. The point is this: That if a country cannot afford to consume its own products, and no industrial country can, then it is obvious that it cannot afford to consume other people's goods in exchange for its exports. That is the reason for these ever mounting tariffs. It is to keep other people's goods out, not to get other people's goods, but to force your goods on other people. When goods are exported from a country you not only get rid of the physical goods but you get rid of the prices which are attached to those goods. And that lessens the shortage of money which is in the country to buy what is left. It is absolutely necessary to the working of so-called classical economy. It is built on the idea of exports and it is for that reason that the policy of this government has been based on the revival of foreign trade, and it is because foreign trade is not reviving and is not going to revive that the policy of this government so far has been quite ineffective.

Mr. DEACHMAN: That is a broad statement.

Mr. JAQUES: It is a true statement.

The CHAIRMAN: Stick to finance, Mr. Jaques.

Mr. JAQUES: That is the only way by which this classical economy can work. It was built in Great Britain, but it was built at the expense of the greater part of the British people.

Mr. TOWERS: I rather thought, Mr. Jaques, if I may interject, that the world had been developed with the thought that the things which could most effectively and efficiently be produced in each area should be produced there, so that the labour of men would be employed as efficiently as possible. It would probably be foolish for us to attempt to grow coffee in Canada. It would be better to let the Brazilians and others grow coffee and for us to supply them with something which we can grow to better advantage. So that the idea that foreign trade is in essence a bad thing—

Mr. JAQUES: I do not say that.

Mr. TOWERS: —must also of course, involve our doing without a great many things of which we make constant use.

By Mr. Jaques:

Q. I am not saying that foreign trade is a bad thing. We say that we should export what we cannot possibly use in exchange for what we cannot possibly produce. But that is not the orthodox idea of foreign trade.

The old Manchester school—I was brought up and lived in the country which started the idea—the thing is to export as much as possible and to import as little as possible.

The CHAIRMAN: Are we not getting a little far afield? I think you are going a little bit too far afield, Mr. Jaques.

Mr. JAQUES: Mr. Towers asked why, if what we say is true, the system had not collapsed years ago. I am answering that. It has been through the medium of foreign trade, and now that foreign trade has declined the system is breaking down.

In reference to that very able speech which you made the other night, Mr. Chairman, and which interested me greatly, I should like to add to your reasons for the failure of foreign trade this remark: Individuals are becoming reluctant borrowers because they are frightened that once they get into debt they cannot get out of it. That is also true of nations. We have an example of what happens to nations which get into debt and are not powerful enough to base their claims with the force of arms. We have not got to go very far, just to Newfoundland, to see what has happened to that country. They cannot meet their debt claims, and there are others. That object lesson has not been lost on the nations of the world, and they are not going into debt if they can avoid it.

Mr. KINLEY: How did Newfoundland get into debt?

Mr. JAQUES: By a perfect working of the orthodox financial system.

Mr. KINLEY: By the abuse of the orthodox system.

Mr. JAQUES: By borrowing beyond their means. They are not able to export enough, or, if they did export enough to take care of the debt they would have to starve themselves to death, and when they said they could not do it they were put into the hands of an official receiver and they are now living, I understand, on five cents a day.

Mr. KINLEY: The merchants on the water front in St. John are not living on five cents a day.

Mr. JAQUES: I do not know anything about the individuals.

Mr. KINLEY: There may be an inequality of wealth.

Mr. JAQUES: I discussed this with the man who was responsible for the scheme.

Mr. KINLEY: Newfoundland is not a potentially rich country.

Mr. JAQUES: That does not matter. Canada is. We have a million on relief.

Mr. KINLEY: Newfoundland is not a potentially rich country.

Mr. JAQUES: Who were the people responsible? You cannot blame masses of the people.

The CHAIRMAN: I think we should stick to Canada and social credit.

Mr. JAQUES: I should like to finish the statement which I started to read. I got to the point where he was able to build an extension to his factory. Then the article continues:—

> —and he will endeavour to collect the cost of the extension in the price of the goods made by the factory. This is irrespective of depreciation, which may be immediately distributed as payment for renewals. But the money cannot be collected (except at the temporary expense of somebody else) because it has never been distributed. Yet the factory has value, and should form a good basis for the expansion of capital. We have in fact the capitalist's dilemma. He is trying to accumulate capital in the form of money, which money can only be formed as the contra to a bank loan and which must therefore go into somebody's costs. But there is nothing available to meet the costs except the capital, which cannot be used for that purpose without being "eaten", the capitalist's nightmare.

That is the position. In trying to form replacements, accumulations of capital, it brings a condition which slows the whole system down so that it breaks down partly, if not wholly, into what we know as a depression.

If, as Mill says, production is the solution, then to make that idea work whatever is produced must be consumed as it is produced, but by the amount of saving by the public; in other words, by the amount of the goods which the people refused to buy because they preferred to save, a shortage of purchasing power is caused.

Now, I have explained how the private individual saves. He buys a security from the bank, he gets the security and the bank gets the money and it is cancelled. I have described how the public subscribes to shares of a corporation, in the first place, which subscriptions go to the bank and the loan is then paid off and the money is destroyed, and then they have to collect twice, once more to form a reserve fund to replace the factory when it is worn out. And so it is that we have a very large percentage of businesses going broke, not because the business men are necessarily dishonest or incompetent. That is not the fact. The fact is that a certain percentage are bound to fail because of the very system which they use to finance their business. It causes and must cause a shortage of purchasing power, so that they cannot sell their goods; or, at least, they cannot sell sufficient of their goods to maintain operating costs and stay in business.

I think if anybody will approach the subject with an open mind he must come to that conclusion. I have been in the producing business all my life, in a small way on the farm, and I am perfectly familiar with the borrowing of money from banks and paying it back. At this point I should like to say that we do not regard the creation of money by the banks as criminal in the least. We could not possibly carry on without it. To my mind it is one of the greatest inventions of all time. It is the invention of the idea that money can be made and destroyed at will. It is a marvellous thing when you come to think of it, considering that the world from the earliest times had to rely on precious metals.

Mr. KINLEY: Corporation law and banking?

Mr. JAQUES: But the system does lend itself to abuse.

Mr. COLDWELL: I have not heard all that transpired this morning, unfortunately, but I was wondering now that you have developed your case up to this point what you suggest ought to be done as an alternative to what we are now doing?

Mr. JAQUES: Mr. Chairman, it is now ten minutes to 1 o'clock and I should not like to enter into a discussion of that matter at this late hour. Mr. Joseph adds:—

> Now there are only two ways out of the dilemma, the Marxist way and the social credit way. It is sub-conscious appreciation of this fact which causes the vitriolic opposition to social credit from communists.

Mr. COLDWELL: I do not know anything about the Marxist way, but what I am anxious to determine is what you suggest as an alternative to what is now being done?

Mr. JAQUES: I do not suggest anything. The social credit theory merely proposes this: That an accurate national account should be kept. On the one side you would have the credit side which would contain a statement of all goods produced, all fresh capital production and all imports. We regard imports as a credit and exports as a debit, because you judge a man's wealth by what he consumes and not by what he get rids of. So imports are on the credit side and exports are on the debit side.

In reference to that I just happened to see in the paper yesterday that if you want to guy good bacon in Denmark you have to bring Danish bacon back from England because they export the good bacon and eat the poor. By unorthodox reasoning that may be a good thing to do but we do not see it that way.

Mr. HOWARD: Do you not do the same thing in operating a farm?

Mr. JAQUES: No, I never did.

Mr. HOWARD: Do you not feed your poor grain to the hogs?

Mr. JAQUES: I never fed poor feed to hogs, and I did not feed myself and family on skimmed milk. Many farmers do, and I daresay their bank accounts were larger than mine.

Mr. KINLEY: You keep the good room in the house for visitors too?

Mr. JAQUES: I ate the best I could produce, and I do not think I have suffered from it anyway.

Mr. COLDWELL: I perhaps differ with you to this extent: I think the difficulty is in the profit system under which we operate, but you propose, as I take it, to issue more money. Yet, as I understand you to say, you think the difficulty is that there is a continuous saving of money, not of goods. Would the issuance of more money decrease savings?

Mr. JAQUES: We have to consider savings not only from the financial point of view but more particularly from the real point of view.

Mr. KINLEY: What is the real point of view?

Mr. JAQUES: The reason for saving is, of course, a hangover from the days of real scarcity. It is due to fear. There was no real need to save anything. There are to-day in Canada in round figures half a million men who are idle.

Mr. KINLEY: Are not savings the same as water above the dam to run the mill?

Mr. JAQUES: No. Let me illustrate it with a motor car. Here we have a fine car with a fine engine. There is a great big gas tank at the end of it. Certain people want to save gas, and instead of letting the gas get into the engine they are busy at the carburettor drawing off the gas before it can get to the engine and running behind putting it into the tank again.

Mr. KINLEY: What was that?

Mr. JAQUES: That is what they call saving. It has no point, but they still have in their hands the thought that if they do not save gas they will run out of it. The beauty of this particular gas tank is that it fills itself.

Mr. DEACHMAN: You mean the social credit gas tank?

Mr. JAQUES: No, solar energy.

Mr. COLDWELL: What do you propose to substitute? What I am particularly anxious to determine is what you propose to provide as an alternative to what we are now doing?

Mr. JAQUES: We want, of course, to upset the system as little as possible. We want to save all that is good in it and just eliminate what is useless. For instance, we believe in the capitalist system; we believe in rewarding merit and enterprise and we believe in profits. If a man displays enterprise we believe he should be rewarded and that he should receive a profit for his enterprise. In fact, I do not know that anybody ever did anything without the thought of profit. If he says his prayers—I do not want to be irreligious—it is with the hope of profit in the years to come. He says, "I will behave myself in this world and resist the evils of the flesh for the good times in the hereafter."

Mr. HOWARD: Or, if he takes them here, he will not get them hereafter?

Mr. KINLEY: Your way seems so easy.

Mr. JAQUES: It is; some people say it is too good to be true.

Mr. KINLEY: Yes; it seems so.

Mr. JAQUES: And some say it is too true to be good. But it is beautifully simple and that is the virtue in it.

Mr. COLDWELL: Let us have a simple explanation of it.

Mr. JAQUES: It is now 1 o'clock, Mr. Chairman, and I should not like to start on an explanation at this time.

The CHAIRMAN: Gentlemen, what is your pleasure in reference to putting on the record the report to which Mr. Towers referred.

Mr. HOWARD: I move that it be put in, the part that Mr. Towers chooses to put in.

The CHAIRMAN: Is it your pleasure to put in the extract from the Australian commission?

Mr. TOWERS: This is a report of the royal commission appointed to inquire into the monetary and banking system of Australia; that is the section of the report which deals with the Douglas social credit theory. Perhaps on second thought, Mr. Chairman, it would be inadvisable for me to select any portion. Probably the whole thing should go in.

Mr. KINLEY: Why are we putting it in, because the governor of the bank says he agrees with it? Does he make the statement that this seems to be a reasonable conclusion?

Mr. TOWERS: That is it; that, instead of trying to formulate my own replies to any questions that Mr. Jaques might ask, I can do no better than put this in because I thoroughly agree with it.

By Mr. Kinley:

Q. Mr. Jaques says he does not agree with it?—A. I assume so.

The CHAIRMAN: What is the pleasure of the committee?

Mr. TOWERS: If I may say this, Mr. Chairman, this is only as an alternative to any reply that I could make. If Mr. Jaques, in fact, was not asking for any expression of opinions from me I have no basis for suggesting putting in the report.

By Mr. Kinley:

Q. You adopt that as your reply?—A. Yes.

The CHAIRMAN: What is your pleasure? Carried.

Mr. JAQUES: In that case, I do not think it should be expected, in fact it cannot be expected that my attempts are adequate to meet the argument of a royal commission composed of the heads of the Commonwealth Bank of Australia.

Mr. TOWERS: No, they were not connected with it.

Mr. JAQUES: If that report goes in I should like to suggest that we present our case in the best way we can.

The CHAIRMAN: That is what we hoped for.

Mr. HOWARD: I thought that was what you were doing this morning.

Mr. JAQUES: No. You cannot expect my authority to stand up to that of the royal commission.

Mr. LANDERYOU: We could take excerpts from all the books which have been written on social credit in reply to this.

The CHAIRMAN: No, no. This is a financial statement as a result of an investigation by a government. I think it is quite different. If Mr. Jaques

wishes to put in a rejoinder at a later date it seems to me that that is his privilege.

Mr. COLDWELL: I asked the question I did because it is a thing in which I think we are all interested, that is, what is the definite proposal which he would make as an alternative to what we are now doing? I may have a different one, and so on, but I do not propose to put it in. What I would say is this: We have had a great deal of discussion on this matter and if Mr. Jaques, Mr. Landeryou and others could formulate a brief statement of the alternative they propose to what is being done now, I think we should get it and have it on the record. I do not mean that we should print voluminous extracts from all kinds of speeches, and so on. What we want to know is what is proposed by the gentlemen who represent the social credit group here as the alternative to what is being done now? We have had the criticism, and what we want to get is the constructive proposal, and I mean that in all seriousness Mr. Landeryou is inclined to smile, but I think we are entitled to it.

Mr. LANDERYOU: Mr. Landeryou has an answer to that remark and the reason he smiles is that to really understand social credit there have been volumes and volumes written. There have been royal commissions held all over the world investigating the proposals of social credit, and you think in a short statement to this committee that we could produce a complete plan that would supplant the present operations of the monetary system. We say that we can give you the principles and the philosophy, as we have it, which represent the background of our whole idea. But to go into intricate details as to methods, I say that there may be differences of opinion among the various schools of thought here as to the method of abolishing poverty in the midst of plenty, but we all agree that it must be done.

Mr. COLDWELL: I think, Mr. Chairman, without going into volumes, you could surely give a very brief and satisfactory outline of the fundamentals of what you mean. I know I could do that as far as I am concerned.

Mr. JAQUES: The point is this: this morning I have not mentioned Social Credit remedies. I have merely been dealing with the Social Credit analysis of the existing system, and that, I take it, is the subject of the Australian committees' report. It was what I believe is known as the A plus B theory.

Mr. TOWERS: That was one section of it.

Mr. JAQUES: The purpose of that section was to destroy that idea.

Mr. TOWERS: To examine that idea and also to examine the savings question to which you referred.

Mr. JAQUES: It was written for the purpose of explaining the A plus B theory. But there is also a mathematical way of doing it, and I am not competent to deal with that.

The CHAIRMAN: What is your pleasure as to adjournment? The governor of the bank has just said that he has a very important meeting this afternoon and to-morrow morning.

Mr. TOWERS: I do not want to be a nuisance, but it would be very helpful to me if I did not have to attend to-morrow morning.

Mr. LANDERYOU: I have one question I should like to ask and then Mr. Towers could prepare an answer to it.

The CHAIRMAN: Shall we adjourn until 4 o'clock to-morrow afternoon?

Mr. LANDERYOU: There is a great deal more that I should like to deal with, but we are reaching the last three or four days of the session.

Mr. HOWARD: Thank you, sir.

Mr. LANDERYOU: That is, according to reports that we hear, anyway. It will be rather difficult for some of us to attend to-morrow afternoon, but there

[Mr. Graham Ford Towers.]

are certain questions I should like to ask Mr. Towers along certain lines. I do not like to hold up the committee and if I could be assured that there would be a meeting Thursday morning it would be all right for me. In that case I would not have to attend to-morrow afternoon.

Mr. HOWARD: After Mr. Landeryou and Mr. Jaques get through I should like to say a word in connection with our monetary system. I am not the least bit prejudiced in connection with it; if they can show me, I am ready to be convinced. I am patient and have listened to every one of the meetings and would like to be shown where their ideas can be of benefit and where the system can be improved. I want to say a few words with regard to the benefit of the present system and I should like to ask Mr. Towers a few questions.

Mr. COLDWELL: Are we liable to have some more meetings?

The CHAIRMAN: It is up to the committee.

Mr. COLDWELL: I have a few questions that I should like to ask. I brought some with me at the first meeting of the committee but so far I have not had an opportunity to ask them.

Mr. TAYLOR: I am in the same position.

The CHAIRMAN: We will have as many meetings as we can.

Mr. KINLEY: Mr. Chairman, I am sure we have enjoyed this discussion. I think this committee has been of more service than any committee of its kind that I have ever experienced since I have come here. I find that wherever a body of earnest men get together there is an element of truth; there is error also, and I should like to discover what truth—I can see what error there is—there is in the suggestions. All we have been dealing with so far is merely theory. They have done certain things in this country. I should like a few minutes of this committee's time to show what they have done in a practical way, the definite things, and what they consider would have helped this country if there was a change in our banking system.

The CHAIRMAN: Shall we arrange for a meeting to-morrow afternoon to hear Mr. Jaques, Mr. Coldwell and Mr. Kinley?

Mr. CLARK: Mr. Chairman, may I say a word?

The CHAIRMAN: Yes.

Mr. CLARK: Mr. Chairman, I am in the mercantile business and the manufacturing business. I should like to have a few minutes.

The CHAIRMAN: You will be given an opportunity.

Mr. CLARK: I have not had any opportunity.

The CHAIRMAN: You will be given an opportunity.

Mr. LANDERYOU: I have not had an opportunity to ask more than half the questions I should like to ask. I have one question I should like to ask Mr. Towers.

The CHAIRMAN: What is it?

Mr. LANDERYOU: It is this: you can make your reply if I am not here to-morrow, or you can make your reply now. We have an easy money policy operating in Canada at the present time. I should like to know what effect that has had upon the prices secured by primary producers throughout Canada, upon wages, total wages paid to the workers of Canada; the effect upon the wage rate, the effect upon municipal, provincial and federal financing; in other words, what benefits have accrued to Canada through the easy money policy pursued by the Liberal administration?

Mr. TOWERS: By the Bank of Canada?

Mr. LANDERYOU: Well, no; we have a statement made—

Mr. TOWERS: I only know of our own actions, of course, Mr. Landeryou, in the Bank of Canada.

Mr. LANDERYOU: I thought we had complete control through the Bank of Canada, not only to issue money but to issue it in terms of public need.

Mr. TOWERS: I think the sovereign power always has control in that respect.

Mr. LANDERYOU: I am speaking of the point of issuing it in terms of public need. I thought we had that clearly established.

Mr. TOWERS: I think that I can speak, and can only speak, on such actions as the Bank of Canada has taken.

Mr. LANDERYOU: Well, then, will you give the action the Bank of Canada has taken under the easy money policy, and what effect it has had upon the primary producer?

Mr. TOWERS: At an earlier meeting a question was asked in regard to the losses involved through bank failures in the United States, Great Britain and the United Kingdom during the period 1926 to 1936. I cannot get the actual losses to depositors in the United States, but I can file here the amount of deposits involved in suspended banks during the period in question.

The bank failures in Canada and the United Kingdom were none.

BANK SUSPENSIONS IN THE U.S.A.

DEPOSITS INVOLVED IN SUSPENDED BANKS—1926-1938

	Member Banks	Non-member Banks	All Banks
1926	67,464	192,914	260,378
1927	63,489	135,840	199,329
1928	46,730	95,850	142,580
1929	58,073	172,570	250,643
1930	372,845	480,518	853,363
1931	733,128	957,541	1,690,669
1932	269,303	446,323	715,626
1933	2,393,948	1,205,027	3,598,975
1934	40	36,897	36,937
1935	5,313	4,702	10,015
1936	507	10,799	11,306
1937	9,087	10,636	19,723
1938	247	13,017	13,264

* The ultimate loss to depositors is not available.

Another question was asked, I think, by Mr. Stevens in regard to treasury bill issues outstanding in the London market.

The figures are, as of April 22 last, £402,000,000 in tender bills and £498,000,000 in so-called tap bills. The amount actually in the market would be something less than the £402,000,000 in tender bills.

By Mr. Landeryou:

Q. Could we have as well a statement in relation to the external debt of Canada and what has been repatriated; that is, dominion, provincial and municipal?—A. The dominion and provincial we have pretty accurately; the municipal quite accurately, but our statistics are not quite as complete there. However, I will do the best I can on that.

Q. Then I should also like to have the amount of government lending to other nations and the position of these debts at the moment.—A. That, I think, Mr. Landeryou, would have to be determined by the Department of Finance. Of course, the amounts are shown in the public accounts, but any negotiations or the exact situation with respect to interest, I do not know.

The CHAIRMAN: The committee stands adjourned until to-morrow afternoon at 4 o'clock.

(At 1.15 the committee adjourned to meet again at 4 p.m. Wednesday, May 10, 1939.)

[Mr. Graham Ford Towers.]

APPENDIX

Extract from the Report of the Royal Commission appointed to enquire into the Monetary and Banking Systems of Australia.

PROPOSALS FOR MONETARY REFORM

In the course of our inquiry, our attention has been directed to a number of proposals for the reconstruction, or amendment, of the economic and financial systems. We have been impressed by the manifest sincerity with which many of these views were propounded. Upon examination, however, we were of opinion that some of the proposals were outside the terms of our reference, but, in this part of our report, we deal with the more important of the proposals that fall within them.

DOUGLAS SOCIAL CREDIT

The Outline of the Theory

In the first instance, we may set out the proposals which it is convenient to group together as "Social Credit", or "the Douglas Social Credit movement". This group covers a diversity of individual opinions, and it will be necessary to amplify the outline later, but it appears that the common ground, or basic principles, can be briefly stated as follows:—

(*a*) the advocates point to the "paradox of poverty in the midst of plenty", and to the wastage and destruction of produce, and the restriction of production, at times when many are in want;

(*b*) they say that this state of affairs is due to a permanent tendency towards a shortage of purchasing power—i.e., money in some form or other—and that the community is therefore unable to buy all the consumable goods produced;

(*c*) they mean by this that the aggregate value, at retail prices, of all the consumable goods and services put on the market, is always—or nearly always—greater than the aggregate money income received by consumers (for example, wages, dividends and interest) which is available to purchase the aggregate output. The A + B theorem is offered as a proof of these contentions;

(*d*) they propose that this shortage should be met by government control of credit, and by either, or both, of the following methods:—

   (i) a national dividend in the form of a weekly or monthly payment to every individual in the community

   (ii) the sale of consumable goods at the "just price", which is a price less than the cost, including a margin of profit. The sellers of such goods would then be compensated for the amount lost by them through selling at this reduced price;

(*e*) the money or credit for national dividends and compensatory payments would be issued by a "National Credit Authority", such as the Commonwealth Bank;

(*f*) For the purpose of ascertaining the shortage of purchasing power in any period, a national accounting would be undertaken;

(*g*) The shortage so ascertained would represent approximately the amount of credit or money that would be made available by the National Credit Authority, either in the form of a national dividend, or compensatory payments, or by both these methods.

The Shortage of Purchasing Power.

The fundamental idea of social credit is that there is a permanent tendency towards a shortage of purchasing power, but the expression—shortage of purchasing power—can be used in different ways, and it is necessary to have a clear understanding of what is alleged. If purchasing power is used in the sense of money income, nobody denies that, at all times, there is some shortage of purchasing power, so far as particular individuals are concerned. There are always some people who never have enough money to buy what is necessary for a reasonable standard of living. It is quite clear, also, that in times of depression, the total purchasing power (or money income of the community) is less than in times of prosperity. In this sense, it may be said that there is a general shortage of purchasing power in a depression as compared with the amount available in other times. But it must be clearly understood that the social credit theory is not concerned with any shortage of money in either of these senses.

The social credit contention is that—save possibly in a period of boom or of exceptional export—the economic system, as a whole, does not, and never can, distribute to individual consumers all the money which the producers have to spend in the course of production. In other words, it is alleged that—save possibly in these exceptional periods—the community, as a whole, never gets enough money, in the form of income, to buy all the commodities that are produced.

The National Credit Account

The first plank of the social credit platform is the "Government control of credit," or—as some say—the "National control of money." The advocates of social credit say that in the interests of the community, it is not desirable that banks, whose principal motive for existence is the making of profits, should have the power to expand or contract credit—or as the Douglas Credit advocates put it—the power to create money in the form of a debt to the banking system, and to destroy it when repaid. This power, it is contended, should be in the hands of a national credit authority.

There seems to be some difference of opinion amongst these advocates as to how far this particular proposal should be carried. Some would prohibit any trading bank from making advances out of the money deposited with it. But this is not included in the proposal, as generally outlined in the writings to which we have been referred. In this form, the proposal is that the Commonwealth Bank, or some other authority, specially appointed for that purpose, should keep a national credit account, as the measure of the credit or money available for issue.

This account would be "credited with the value of the community's assets, both public and private, and with the commercialized value of the population." This means that a valuation would be made of the capital assets of the country, e.g., land, roads, railways, waterworks, drainage, buildings, plant and machinery. No distinction would be made between public and private property. Property would be taken at replacement value, if in use, or, if not in use, at market value. To this would be added a sum to represent "the commercialized value of the population," or, as we understand it, a capitalization of the earning capacity of every member of the community. On the other side of the account, we gather that there would be a debit for a sum representing the existing supply of money.

From time to time, for example, annually, the national credit account would be credited with amounts representing the value of the total national production, which includes—

(*a*) capital goods and consumable goods produced, at cost including profit;
(*b*) imports;

(*c*) capital appreciation (the increase in value) of land, works, buildings, and the like,

and debited with amounts representing the value of the total national consumption, which includes—

(*d*) total national consumption;
(*e*) exports;
(*f*) capital depreciation of land, works, buildings and the like.

Any money issued from time to time would be debited to this account, and the credit balance would be regarded as a fund from which the national credit authority would issue credit or money for—

(i) "National dividends"; or
(ii) payments to compensate the sellers of consumable goods for selling them at the "just price";

and also (according to some advocates) for—

(iii) the finance of national and semi-national undertakings, and social services;
(iv) the reduction of the national debt;
(v) the relief of taxation.

The extent of the issue for any of the last three purposes would be determined by the Government, or entrusted to the discretion of the national credit authority.

The National Dividend

The national dividend can be briefly explained. It involves the payment of some fixed sum to every member of the community, weekly, monthly, or quarterly as may be determined. These payments would be made by the national credit authority—presumably the Commonwealth Bank—in legal tender money, or by cheques or vouchers which could be cashed if required.

The Just Price Subsidy

The "just price" subsidy requires more detailed treatment. The proposal is as follows:—

(*a*) the advocates assume that the figures appearing in the national credit account as the "Total National Production" and "Total National Consumption," when taken over any particular period, would show some substantial excess of production over consumption, and this would be regarded as the measure of the shortage of purchasing power to be made garded as the measure of the shortage of purchasing power to be made up by the "just price" subsidy, either alone, or in conjunction with some scheme of national dividend.

(b) Taking these figures as a guide, the Government or the national credit authority would then fix some percentage—say 25 per cent—by which the retail prices of consumable goods would have to be reduced below cost in order to qualify for the subsidy;

The cost referred to, is the cost to the retailer, plus a margin of profit, fixed or regulated by the proper authority;

(c) When the goods had been sold to the consumer at this reduced price, the retailer would, in due course, apply to the national credit authority for payment of the subsidy. Some system would have to be devised for checking the sales and verifying compliance with the conditions—i.e., that the price had been reduced and the fixed margin of profit not exceeded;

(d) When the national credit authority was satisfied on these points, it would pay to the retailer as subsidy the difference between his "cost" price and the price at which the goods had been sold;

(e) The payment would be made by a cheque or order, which might be cashed or credited through the banking system.

There has been some hesitation, upon the part of some of the social credit advocates, in regarding these payments as money; but it is clear from the evidence of Major Douglas before the Macmillan committee that he regards them as money.

Shortage of Purchasing Power Examined

Having set out the proposals, we can now proceed to examine the arguments in support of the theory that there is a permanent tendency towards a shortage of purchasing power. No statistics exist which, in our opinion, serve to establish the truth of their theory. We invited the advocates, who appeared before us, to provide us with such statistics, but they were unable to do so.

The A + B Theorem

The ordinary view is that whatever is paid out by the producer as the costs of production must sooner or later be paid to some one who receives it as income, which he can spend, if he so desires, on consumable goods.

Major Douglas, the founder of this school of thought, contests this view, and purports, by what is known as the A + B theorem, to demonstrate that their is a permanent tendency towards a shortage of purchasing power. His statement is as follows:—

> A factory or other productive organization has, besides its economic function as a producer of goods, a financial aspect—it may be regarded on the one hand as a device for the distribution of purchasing power to individuals, through the media of wages, salaries, and dividends; and on the other hand, as a manufactory of prices—financial values. From this stand-point, its payments may be divided into two groups—
>
> Group A.—All payments made to individuals (wages, salaries, and dividends).
>
> Group B.—All payments made to other organizations (raw materials, bank charges, and other external costs).
>
> Now, the rate of flow of purchasing power to individuals is represented by "A", but since all payments go into prices, the rate of flow of prices cannot be less than "A" plus "B". Since "A" will not purchase "A" plus "B", a proportion of the product at least equivalent to "B" must be distributed by a form of purchasing power which is not comprised in the description grouped under "A".

The first observation to be made upon this, as a logical demonstration, is that it lacks precision where precision is essential. The theorem may refer to—

(a) The payments, and prices of the products of only those factories or organizations which produce consumers' goods.

(b) The payments and prices of the products of all factories or organizations irrespective of whether they produce consumers' goods or producers' goods.

(c) The payments of all factories or organizations, but the prices of the products of only those factories which produce consumers' goods.

Consumers' goods or products are the commodities (such as food and clothing) which are purchased by individual consumers—the public—for their own consumption or use. Producers' goods are the commodities (such as machinery, tools and materials) which are purchased by other factories or organizations for the purposes of manufacture of other products for sale, either to the public or to yet another factory.

It will be easier to follow our interpretation and criticism of the social credit theory by reference to the accounts of three associated productive organizations, each of which, for convenience, we shall call a "factory". The statement which follows is based upon an investigation of theactual accounts of a baker, a flour-miller and a farmer for the year ending 30th June, 1936. It shows in a summarized form the cost of manufacturing and selling the bread, the cost of manufacturing and selling the quantity of flour used by the baker to make the bread, and the cost of growing the quantity of wheat used by the miller to make the flour. For the present purpose a summary is sufficient. In due course these costs will be considered in greater detail.

SUMMARIZED STATEMENT OF COSTS

	Baker	Miller	Farmer	Total
	£	£	£	£
Value of production—				
Baker—bread	9,010	....	....	9,010
Miller—				
Flour	....	2,825	....	....
Offals	....	805	....	3,630
Farmer—wheat	....	....	2,747	2,747
	9,010	3,630	2,747	15,387
Cost of production—				
"A" payments—				
Wages and salaries	2,966	310	345	3,621
Profits	917	226	269	1,412
Total "A" payments	3,883	536	614	5,033
"B" payments—				
Flour	2,825	....	....	2,825
Wheat	....	2,747	....	2,747
Other	2,302	347	2,133	4,782
Total "A" and "B" payments	9,010	3,630	2,747	15,387

If the first of the three interpretations of the A + B theorem is intended, the statement that the "A" payments from the factories producing consumers' goods are less than the total prices of the goods which they produce, cannot be disputed. The "A" payments of the baker, which amount to £3,883, are in themselves not sufficient to buy the whole of the bread which he produces, valued at £9,010. In fact, this position must always arise, for it is clear that the "A" payments of any factory must always be less than the total value of its production. But the "A" payments of any factory do not constitute the whole of the income distributed to consumers and available to purchase its production. Sooner or later, its "B" payments will appear as "A" payments in some other stage of production. We shall deal with this later.

If the second interpretation is intended, the theorem means that the purchasing power distributed by all factories to individuals as "A" payments is not enough to purchase all the commodities which these factories produce (that is, both producers' and consumers' goods). This also is true. For instance, in the example given, the total "A" payments amount to £5,033, while the value of the total production amounts to £15,387. But the cost of wheat forms part of the cost of flour, and the cost of the flour in turn forms part of the cost of the bread. The consumer of bread is not required to pay both for the finished product and for the raw materials from which it is made. Therefore, if the amount paid by the baker to the miller for the flour, and by the miller to the farmer for wheat, be deducted from the value of the total production, the position is as follows:—

	£	£
Value of production—		
Baker—bread	9,010	
Miller—offals	805	
		9,815
Cost of production—		
"A" payments	5,033	
"B" payments (other than wheat and flour)	4,782	
		9,815

This is exactly the position we shall have to consider when we discuse the third interpretation in the next following paragraph.

We come finally to the third interpretation of the theorem. In this, different meanings are given to the letter "A" when it is used alone and when it is used in the expression "A + B". When "A" is used alone it refers to the income, amounting to £5,033, distributed as wages and profits by all the factories. But when "A" is used in the expression "A + B" it refers only to the wages and profits of the baker amounting to £3,883, and, therefore, the expression "A + B" in this case means the prices created only by the factories producing consumers' goods, costing £9,815. While it is clear that direct payments of £5,033 will not purchase goods costing £9,815, the truth or falsity of the assumption made in this interpretation depends, as in the first interpretation, upon the distribution of the "B" costs, and if it is shown that these ultimately become purchasing power, no shortage can arise. If there is a shortage, therefore, it must be due to either or both of the following causes:—

(*a*) That some of the costs incurred by the factories producing consumers' goods are *never* distributed as purchasing power in individual consumers.

(*b*) That although all the prices created (or costs incurred) by the factories producing consumers' goods are sooner or later distributed as purchasing power to individuals, some of the purchasing power distributed in their production has been spent by the time the consumers' goods come on the market, and some of it may not then have either been distributed or spent.

The questions raised by all of these interpretations may, therefore, be stated as follows:—

(*a*) Is there any cost which is incurred in the production of consumable goods, or services, which is not either paid as income to individuals or else passed on, so that, ultimately, it appears as purchasing power in the hands of some one?

(*b*) Is there a shortage on account of the fact that the purchasing power, distributed as costs, comes into the hands of the consumer at different times, and, therefore, that some of it may be spent before the consumable product is put on the market, and that some of it may not become available until later? and

(*c*) Does the practice of saving necessarily produce any such shortage as is alleged?

We shall consider each of these in due course.

We have now set out what we consider to be the important questions raised by the A + B theorem. But some advocates of social credit do not rely entirely upon this theorem. Their views, however, raise the same questions, and our examination will cover both their arguments and the A + B theorem.

The Distribution of Costs

The obvious method of approaching the first question—whether there is any cost which is not ultimately represented by purchasing power—is to take the items one by one and see what becomes of the money. For this purpose it is convenient to refer to the foregoing "Summarized statement of costs," which covers the whole of the costs relating to the production and sale of bread. It is clear that the "A" payments, consisting of wages, salaries, and profits, are purchasing power which recipients can spend as they choose. We are not at the moment concerned with the fact that some of the payments may have been made, and the money spent, before the bread is available for sale, or some of it saved, or with the fact that that some of the profits may be undistributed. These aspects will be considered later.

The "B" payments may be considered under two headings. The first group consists of the raw material of the industry, which constitutes the whole or greater part of the income of the factory from which it is purchased. For example, the amount paid for flour by the baker appears as income of the miller, and the amount paid for wheat by the miller appears as income of the farmer. It is clear, therefore, that these amounts create purchasing power when received by the miller or farmer. Some part of them will be paid to other individuals or organizations for goods or services, and is purchasing power in their hands. The balance will represent the profit of the miller or farmer which he is free to use as he chooses. The question, therefore, resolves itself into an examination of the distribution of the other "B" payments of all the businesses, which amount to £4,782. These are set out in detail in the table which follows. The amount paid by the baker for flour and by the miller for wheat are excluded. The statement does not show the total other "B" costs of the miller and farmer, but only that proportion of these charges which relates to the quantity of flour sold to the baker, and to the number of bushels of wheat required to make it.

OTHER "B" PAYMENTS, EXCLUDING FLOUR AND WHEAT

	Baker	Miller	Farmer	Total
(*a*) Goods—				
Materials	£ 457	....	....	£ 457
Seed wheat purchased	....	....	£ 5	5
Superphosphates	....	....	101	101
Sacks	....	£ 41	78	219
Horse feed	285	....	....	285
Firewood	227	41	....	268
Petrol	....	....	90	90
Total goods	£ 969	£ 82	£ 374	£1,425
(*b*) Services—				
Electric power	29	....	....	29
Cartage	....	82	52	134
Rail freight	....	....	392	392
Insurance	56	14	2	72
Telephone	17	7	11	35
Travelling expenses	....	31	30	61
General expenses	12	24	96	132
Printing and stationery	17	15	5	37
Repairs and maintenance	103	34	129	266
(*c*) Rent	364	6	310	680
Interest	28	....	414	442
(*d*) Flour tax	555	....	....	555
Land taxes and rates	51	5	69	125
(*e*) Depreciation	101	47	249	397
Total	£2,302	£ 347	£2,133	£4,782

Payments of a similar nature have been classified in groups. The first group includes other materials of various kinds purchased by any of the factories. The amounts so paid form part of the income of the person to whom, or organization to which, they are paid, and that income may be dissected into "A" and "B" payments in the same manner as in the account we are now considering. A little consideration will show that a large proportion of many of these payments must consist of wages. In some cases practically the whole amount is expended in that manner, as for instance, in the case of firewood. In others, wages may not form such a large proportion, because some of the raw material used has been purchased from other organizations, which in turn distribute part of their income as wages. Superphosphates, sacks and petrol are in this class.

The next group deals with services. Here, the percentage of wages is probably higher than in the case of materials, and the conditions described in the last preceding paragraph apply with equal or even greater force to these payments. Analysis would also show that a substantial proportion of the "B" payments of these organizations will in turn be also eventually distributed to some one as wages.

The third group includes rent and interest. If these are paid to an individual, there is no doubt that they are purchasing power in his hands. If paid to an organization, they form part of its income from which salaries and other expenses are paid. The balance is profit, which the proprietors are free to use as they choose.

The fourth group includes certain forms of taxation; in this case flour tax, land taxes and rates. These payments do not result in any wastage of purchasing power. The money provided by taxation is distributed by the Government or municipality in such forms as salaries, wages, pensions or bounties, or as interest on loans, or payments for materials or services.

The last item is the amount of the depreciation included in the costs of each of these businesses. There appears to be a great deal of misunderstanding about the effect of depreciation upon purchasing power. The amount charged for depreciation is an estimate of the loss of value in the assets used for production, either by wear and tear or by the passage of time. The effect of charging depreciation as a cost is to provide that an equivalent amount shall be withheld from distribution, and thus in time provide a fund for the replacement of these assets or for the eventual return of the capital invested in them. It is not usual for the amount set aside for depreciation, or as reserves for other purposes, to be withdrawn from the business and separately invested. In nearly every case the amount is retained in the business, and used as working capital, out of which wages and expenses are paid and materials are purchased. It is clear, therefore, that in these circumstances the amount set aside for depreciation is not lost as purchasing power.

There is, however, another argument which may be used to show that amounts set aside for depreciation do not necessarily reduce purchasing power. In the ordinary course every factory is continually replacing something, and in any particular year it may spend, in that way, more than it has set aside for depreciation out of the profits of that year. Whilst some factories are spending less than they are setting aside for depreciation, others will be spending more. The failure to replace may reduce the purchasing power distributed by the industries which supply replacements, but the purchasing power represented by the unspent amount is not lost. It remains in the business, and is used in the manner previously described. If, however, the amount spent upon replacements exceeds the amount set aside, there is an increase in the purchasing power distributed by the industries which supply replacement goods, but on the other hand the working capital of the business is necessarily reduced. If there is a difference between the amount set aside and the amount spent this indicates a transfer of purchasing power, and not a loss. The question of expenditure upon replacements is, however, closely allied to the larger question of capital expenditure which will be considered later.

It is clear, therefore, that, sooner or later, every "B" payment becomes the income of a consumer, which he can spend as he chooses. The fact that some part of the "B" payments and profits may eventually come into the hands of some one in another country does not affect the truth of these statements. In some cases, the change from a "B" to an "A" payment takes place almost immediately. In others it takes longer, because the payments pass from one factory to another. This brings us to the consideration of another factor, namely, the effect of "time" upon the distribution of purchasing power.

The Time Element

We have now to consider whether there is a shortage on account of the fact that the purchasing power distributed as costs comes into the hands of the consumer at different times, and, therefore, that some of it may be spent before the consumable product is put on the market, and that some of it may not become available until later.

The example we have given can again be used in the examination of this question. The wages paid by, and the profits of, the baker, the miller, and the farmer are available to buy bread. But it is clear that all the wages paid by the farmer while the wheat is growing, and by the miller during the process of producing the flour, and all the profits will not be available to buy the bread when it is offered for sale. If we consider one industry at a particular moment or period of time, it would no doubt be true that the goods cannot be sold unless the purchasing power distributed as costs is then in existence and used for that purpose. But that is an unreal position. No industry is self-contained. It is part of a complicated, continuous, and interlocking system. The available purchasing power at any period depends upon the continuity of industry as a whole. If each industry continues to carry on its operations, the available purchasing power consists of the whole of its wages, salaries and profits, and these in turn will at least equal the total cost of the commodities produced. A shortage can only arise if there is an interruption in the process, and the factories in the earlier stages either reduce their "A" payments, or cease production. The conditions of any industry, or of industry as a whole, are subject to fluctuations which operate at times to reduce employment and production, but this does not prove a *permanent* tendency towards a shortage of purchasing power.

At this stage it is convenient to refer to the question of borrowed money. Speaking generally, it makes no difference to the purchasing power of the community as a whole whether a business man uses his own or borrowed money. If he uses borrowed money, he pays interest to the lender. If he uses his own money, his profits are increased by an amount equal to the interest. The purchasing power represented by the additional profit, or the interest, is differently distributed, but its aggregate volume is not diminished. When money is paid, it makes no difference to the person who receives it whether he has been paid out of a credit balance or an overdraft. The purchasing power of the money is the same.

The aspect with which we are most concerned is the variation in the supply of money available to be borrowed, or, in other words, the contraction or expansion of credit. It is customary for advocates of the social credit theory to refer to the repayment of a bank overdraft as the " cancellation of credit." It is true that the debt of the borrower is thereby reduced or extinguished, but the question is not whether individual accounts are cancelled, but whether the total volume of bank credit in use by industry is reduced or any part of it cancelled. Provided that the bank is able and willing to lend the money to some other borrower, the repayment of a bank advance or overdraft has no more effect upon the purchasing power of the community as a whole than has repayment to any other lender. If, however, the banks are unable or unwilling to make fresh loans, there is a tendency for the purchasing power of the community to contract, just as there is a tendency for it to expand when bank advances are increasing. The point is that both of these are temporary conditions which do not prove the existence of a *permanent* tendency towards a shortage of purchasing power.

Savings

The last of our three questions is concerned with the question of savings. In the argument presented by Mr. J. C. Foley, on behalf of the Tasmanian branch of the Douglas Social Credit Association, it was contended that—

> The total costs of industry can certainly be recovered if the incomes of consumers are sufficient in the aggregate to purchase all final products at prices which cover costs of production, and if all incomes are used for this purpose.

It is well known that all consumers do not use the whole of their incomes to purchase consumers' goods. Some are able to purchase all they require without using the whole of their income. Others can only save by foregoing consumption. Still others require to spend the whole of their incomes on consumers' goods, and cannot save.

Savings may be regarded as purchasing power withheld from the market by refraining from consumption. The most common reason for saving is to provide security against the ordinary risks of life. A great part of the savings consists of amounts paid to life assurance companies, superannuation funds, and friendly societies, or lodged on deposit with banks. Of the amounts paid to the life assurance companies, superannuation funds and the friendly societies, part is distributed in the form of salaries and expenses and benefits. The balance is invested in some form, as for instance in government loans or other securities, or on mortgages. These amounts furnish the borrower with funds which are expended to provide employment, or to purchase materials or capital goods. Bank deposits provide a basis for bank advances which are used for similar purposes. No doubt part of the bank deposits at any time consists of money awaiting investment, but such amounts are available to the owner either on demand or at a certain date.

At any given moment, some are saving out of income, others are spending past savings, and others again are borrowing against future income for the purpose of buying consumable goods. At all times, considerable amounts are being distributed to individuals to the form of superannuation allowances, friendly society benefits, and the proceeds of life assurance and endowment policies, all of which represent savings, or the result of savings, made in the past. These examples show that the supply of purchasing power is affected by many influences to which the advocates of the social credit theory do not appear to attach sufficient weight.

It is not denied that the relation between saving and spending may materially increase or decrease purchasing power. If the rate at which purchasing power is being withheld from the market by saving is not equalled by the rate at which it is being put back into the market by the production of capital goods, there will be a decrease of purchasing power and a tendency for prices to fall. If, on the other hand, the production of capital goods exceeds the rate of saving, there will be an increase of purchasing power, and a tendency for prices to rise. But both these conditions are temporary, and afford no justification for the conclusion that the practice of saving, in itself, creates a permanent tendency towards a shortage of purchasing power.

The fact that some persons enjoy an income which is more than sufficient to purchase all that they need in the form of consumers' goods, while others cannot purchase the consumers' goods that they require to maintain a reasonable standard of living, indicate an unequal distribution of income. But that is a condition which the social credit proposals do not attempt to alter.

The Remedies

The social credit theory is based on the assumption that there is a permanent tendency towards a shortage of purchasing power. To remedy this it is proposed that purchasing power should be increased either by giving to the retailer, who sells goods at the "just price," a compensatory payment, or, by the payment of a "national dividend," or by both these means. But as we have shown that this tendency does not exist, we cannot accept the proposed remedies as a solution of the problems which the social credit theory purports to solve. The social credit remedies are intended to be applied, not only in a depression, but at any time. The amount of credit proposed to be distributed is not insignificent, for although no attempt has been made to calculate the alleged shortage, social credit advocates speak of a compensatory payment of 25 per

cent of selling prices. The remedies therefore are merely a method of credit expansion, and as this subject is discussed in another part of our report, further comment is unnecessary.

The items included in the national credit account, and the method of its preparation, have been described and need not be repeated. Our first criticism is that the practical difficulties which must arise, both in obtaining the necessary information, and in measuring the value of each asset, are so great that any result disclosed by the account would be useless for the purpose for which it is intended. No doubt some reasonably correct estimate could be made of some of the items, but any estimate of others would be unreliable, and any attempt to calculate "the commercialized value of the population" would be merely a guess.

The idea underlying the national credit account is that the property of the community may be used as security for an issue of credit up to the full amount of its value. There is no recognition of the fact that some of the property may already have been pledged as security for loans, or that it may be so used subsequently. In that event, the same property would be the security for two separate and distinct advances, one being the issue of credit by the national credit authority, and the other any loan arranged privately by the owner.

The National Dividend

The national dividend is proposed by the advocates of social credit as a remedy for the alleged shortage of purchasing power. There is some similarity between the national dividend and the social services now provided by the Commonwealth and by the States. In each case, those who receive the payment have their purchasing power increased, but the fundamental difference is that the present social services are provided out of taxation, whereas the proposed national dividend would be provided out of an expansion of credit.

The Just Price

According to the theory, the "just price" would be determined by reference to the annual debits and credits in the national credit account. But, in practice, it would be impossible to determine the exact amount of the compensatory payment in this manner, and for that reason the advocates of the social credit theory appear to be satisfied to estimate the percentage to be allowed.

The difficulties of applying this proposal have been underestimated. The variation in the prices at which goods even of the same quality are bought and sold under different conditions, and in the margins of profit, would create many difficulties, and it is probable that it would be necessary to regulate both wholesale and retail prices and therefore the retailer's margin of profit, and to institute, at a considerable cost, an elaborate check over the accounts of the retailer.

Conclusions

We have given full and careful consideration to all the material to which our attention has been called, or which we have been able to discover for ourselves, upon this subject. We fully appreciate what has been urged upon us with respect to the problem of poverty, but we are unable to find that the social credit theory offers any solution.

Our conclusions are as follows:—

(*a*) There are always some people in the community who have not enough money to buy what is necessary for a reasonable standard of living. In this sense there is, at all times, a shortage of purchasing power. The total purchasing power of the community is less at some times than at others. In times of depression, for example, the money income of the community is less, and the number of people unable to purchase

necessaries is greater, than in times of prosperity. In this sense there is, at some times, a shortage of total purchasing power.

(b) The social credit theory does not refer to a shortage in either of these senses. It alleges that there is a permanent tendency towards a shortage of purchasing power, in other words, that the economic system can never distribute to consumers all the money which producers have to spend in the course of production.

(c) There is no permanent tendency towards a shortage of purchasing power.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 16

WEDNESDAY, MAY 10, 1939

WITNESSES:

Mr. M. J. W. Coldwell, M.P.,

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

WEDNESDAY, May 10, 1939.

The Standing Committee on Banking and Commerce met at 4 o'clock p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Coldwell, Deachman, Dubuc, Hill, Howard, Jaques, Landeryou, Lawson, Leduc, McGeer, Moore, Plaxton, Ross (*St. Paul's*), Taylor (*Nanaimo*), Woodsworth.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Mr. Jaques quoted from a pamphlet entitled "Banking and Industry" by A. W. Joseph, M.A., B. Sc., A.I.A., of Birmingham, England, and requested that extracts from this pamphlet be printed in the record in answer to the Report of the Commission on the Monetary and Banking Systems of Australia.

At the suggestion of Mr. Howard, it was agreed that these extracts be printed subject to the perusal of the sub-committee on procedure.

Mr. Coldwell, M.P., a member of the Committee, gave an outline of the economic policy of the C.C.F. party and was questioned thereon.

At 6 o'clock the Committee adjourned until to-morrow, Thursday, May 11, at 11.15 o'clock a.m., it being agreed that Mr. Towers would then be examined by Mr. Howard.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons, Room 227,

Wednesday, May 10, 1939.

The Standing Committee on Banking and Commerce met at 4 o'clock p.m. The Chairman, Mr. W. H. Moore, presided.

Mr. Howard: Mr. Chairman, it was suggested at the last meeting of the committee that I should have the floor to-day to put forward my views and ask certain questions I had in mind. We have now heard from representative parties, so to speak, in the house. We have heard Mr. Landeryou and Mr. Jaques from the Social Credit Party; we have heard Mr. Gerry McGeer from his own party, and we have had a few questions from others. Mr. Tucker has also expressed his views on the subject. I think that, due to the fact that Mr. Coldwell represents another group from which we have not heard, I should like to concede my place to him in order that he may put his questions now. I should like your permission to follow that course.

Mr. Coldwell: I greatly appreciate what Mr. Howard has done. I understand that Mr. Jaques wishes to take about ten minutes, and I should be very glad to allow him to do so, if that is agreeable.

Mr. Howard: I have no objection to that, as long as he does not go over the ten minutes.

Mr. Jaques: Mr. Chairman, I thank the committee for the extra time. I do not think it will take ten minutes; possibly not five. I merely wanted to add to the statement I made in answer to Mr. Towers' question yesterday which was to the effect that if things are as we say they are, why has not the system broken down before? I mentioned foreign trade and I mentioned the purchase of securities by the banks. But there is one other point which I forgot and it is as follows:—

> It is sometimes asked how is it that if there is a continually increasing difference. . . .

The Chairman: What are you quoting from now?

Mr. Jaques: I am quoting from a pamphlet entitled "Banking and Industry" by A. W. Joseph, M.A., B.Sc., A.I.A., Birmingham, England. Mr. Joseph is an insurance actuary and this is a lecture which he delivered before the Institute of Actuaries in Great Britain.

The Chairman: All right.

Mr. Jaques: He says:—

> It is sometimes asked how is it that if there is a continually increasing difference between costs and purchasing power the economic system has not broken down completely long ago. The first reason is that the banks apply the cure of deflation, i.e., they force companies to write down perfectly good assets to book values much below their reasonable real values.

I gave the other reasons yesterday.

In conclusion, Mr. Chairman, may I say that the report of the Australian committee does not explain the conditions in Australia which are practically the same as our own—that is, potential riches, potential powers of production but great numbers of the people suffering and a great many hundreds of

thousands of unemployed. I think that the onus is on the upholders of the existing system to explain to us why it is that we are in the mess we are in, not only in Canada but in every country in the civilized world. I can only say that so far as my experience goes—and it is pretty wide by now—that the theories that I mentioned yesterday are the only ones that will give a logical reason for the condition we are in. Since I was here yesterday, Mr. Chairman, I have discussed this with my colleagues; and they agree that if we can put extracts from this pamphlet on the record, it will meet our case very well.

The CHAIRMAN: You have already quoted some.

Mr. JAQUES: Very little.

The CHAIRMAN: You desire to put some additional extracts on the record?

Mr. JAQUES: I have marked the additional extracts, and they are very brief. If we are allowed to put those on the record as the answer to the Australian committee, it will meet our case.

Mr. HOWARD: I would suggest—and this is only a suggestion—that if the chairman cares to read over the excerpts, rearrange them and put them in, I will be satisfied.

Mr. JAQUES: That is all right. As I said yesterday, Mr. Joseph is a very highly qualified man. He is an insurance actuary and took the highest possible mathematical honours at Cambridge university.

The CHAIRMAN: Shall we say that the extracts will go on the record subject to the perusal of the steering committee?

Mr. HOWARD: All right.

Mr. JAQUES: Thank you, Mr. Chairman.

Mr. TOWERS: May I interject something here, speaking on just one item of Mr. Jaques' remarks, where he apparently regarded certain action of the banks as the major cause of the trouble. That action, as I gathered it from the extracts which you read, Mr. Jaques, was a writing down of the book values of companies' assets to figures substantially below the real value. Where statements of that kind are made in relation to subjects which are considered important, it is, of course, very helpful if the statements which, in the first place, I suppose, are opinions, can be confirmed by facts. I suppose that one or two instances of companies which have got into financial difficulties being forced to write down their book values would not prove the case so far as the world at large was concerned, on the basis that one swallow does not make a summer. It must be assumed that this action to which he referred is a widespread practice and a constant practice. On that basis it should be possible to give examples on a considerable scale; in fact, of course, I am sure he could give no examples of that kind on a widespread scale.

Mr. JAQUES: Mr. Chairman, of course Mr. Joseph does not mean that the banks hold a pistol to these concerns, but as a consequence of conditions which we know as deflation, everybody more or less is forced to write the book values of their holdings down.

Mr. TOWERS: Surely it should be possible to give widespread examples of that as an important and constant practice.

Mr. JAQUES: I could mention the situation which was brought up here yesterday by Mr. Lacroix, of lumbering; then there is real estate and every other business; where certain values are attached to the business and we find, without exactly knowing why, that our wealth is gone; that is, not the real wealth but the book values attached to the wealth.

Mr. TOWERS: And that is something which, through all the years, goes on constantly on an important scale. I mean, that is the suggestion made by Mr. Joseph. He is not referring to the calamities which may overtake

individuals or individual companies during a depression. He refers to a constant widespread practice which is the major source of the trouble, as he sees it, in the present financial system.

Mr. JAQUES: I do not think he means to infer, of course, that there is a deliberate conspiracy.

Mr. TOWERS: I am not suggesting that. I am just referring to the actual practice itself.

Mr. JAQUES: I think he means that in times of prosperity values increase.

Mr. TOWERS: He does not say that, of course.

Mr. JAQUES: Well, they must have increased, if during a depression the bottom falls out of the values; and, of course, as we see it, it is due to the shortage of money, which is the object of deflation—to bring prices down. It may be necessary; in fact, Mr. Jackson Dodds calls it a healthy purge. It no doubt is for the money industry, but it is very uncomfortable for everybody else.

Mr. TOWERS: I did not want to raise a very broad question, but I thought perhaps I should point out that these are statements which Mr. Joseph makes, but he does not bring forward any evidence in support of his statements.

The CHAIRMAN: Mr. Jaques, will you mark the extracts you wish put in?

Mr. JAQUES: Yes.

The CHAIRMAN: Have you marked them?

Mr. JAQUES: Yes.

The CHAIRMAN: May I have them?

Mr. JAQUES: Yes.

The CHAIRMAN: All right, Mr. Coldwell.

Mr. COLDWELL: Thank you. Mr. Chairman, you were good enough to suggest yesterday afternoon that perhaps—since a number of points of view have been brought before this committee and I have been rather quiet during this inquiry largely because my attention has been occupied with another committee and the wheat problem in the house—it might be well if I would ask some questions or give an outline of what I thought in connection with this matter. To ask questions might take two or three hours. Consequently, I am going to take the opportunity of placing before you some ideas which I have very hurriedly put together since yesterday afternoon.

At the very outset, I should like to say this: Yesterday morning I felt that the social credit group might have placed before you, either then or at a subsequent time, a somewhat clear and definite outline of what their constructive proposals were. I had no intention of expressing any antagonism when I made that suggestion; because Mr. Jaques very clearly stated that he believed in the present system, the capitalist system, and that they did not wish to change that particular system. But it so happens that I saw a rather interesting comment on that in a book which I have before me, and which I only opened to-day, incidentally. It is entitled "Socialism in New Zealand" written by John A. Lee. John A. Lee is parliamentary under-secretary to the Minister of Finance of the dominion of New Zealand. At page 43 of this volume he says this:—

> The Douglas Credit Party was also, at that time, interesting the people of New Zealand in credit and currency reform, Douglas Credit agitation sweeping New Zealand like a religious revival. While no one could outline any Douglas Credit constructive proposals, nearly everyone was able to understand and agree with the Douglas Credit movement's criticism of the orthodox financial machine. The very difficulty of understanding Douglas and his algebraic symbols and theorems rendered Con-

> servatives more willing to listen to the Douglas movement's critical and able analysis of capitalist finance. Thousands who because of past political hostility found the Labour Party altogether too vulgar an organization, rallied to the Douglas Credit movement, which in a few months reached extraordinary proportions and sold a huge amount of literature. These thousands, after being won to a position of scepticism in regard to capitalist finance, could not rest in the Douglas movement but started to study the practical and positive proposals of the New Zealand Labour Party. And although the Dogulas credit movement withered away almost as rapidly as it had blossomed, nevertheless it can be said finally that the Douglas credit movement's activities were the corridor through which tens of thousands of voters entered the Labour Party. Douglas credit agitation must have a big share of the credit for any Labour success, although the Labour Party is thoroughly socialist in its policy.

That, I think, is a very interesting commentary by the under-secretary to the Minister of Finance in New Zealand as to the lack of constructive proposals which they were able to give.

Now, the C.C.F. has always placed the public ownership and the control of the financial system in the forefront of its economic policy. The establishement of a publicly owned central bank to control currency and credit in the public interest has been one of its fundamental proposals. When the Bank of Canada was taken over as a publicly owned institution, the Montreal *Gazette* described the Act as a triumph for our little group.

But mere public ownership is only a step. Its success depends upon the policy under which it operates, and this, in turn, depends upon governmental policy. That, I think the governor has brought out on several occasions.

Only to the extent to which the financial system is used as an instrument of social and economic progress can it be regarded as a national asset.

Under modern capitalism, those who control and direct the financial system to a preponderant extent dictate the volume and type of production and the conditions or distribution. If, therefore, the publicly owned Bank of Canada operates merely as a central bank of issue and re-discount, leaving the amount and nature of loans and credits in the hands of privately owned and profit making institutions, there will be little, if any, social advantage in the national ownership of the central institution.

No form of social ownership can be really effective apart from the socialization of the financial system. This involves more than monetary reform, though monetary reform is also an integral part of the C.C.F. proposals.

The problem, too, is larger than the control of the creation of credits, for finance enters into every phase of the production and distribution of goods and services. It, therefore, covers the entire field of our economic relationships and cannot be considered apart from the control of the national commerce and the machinery of production; in a word, our entire economy. Some people erroneously think that manipulations of finance alone could increase purchasing power. This, we believe, has proven to be wrong. In the opinion of the C.C.F. the socialization of finance must be considered as an important step towards an intelligently planned national economy. Such an economy would distribute sufficient purchasing power among the people so that they might be able to obtain the maximum amount of goods and services.

Mr. Cleaver: How?

Mr. Coldwell: Just a moment, and I shall answer your question. Thus, as the efficiency of production improved, the standards of living and the social services would improve proportionately.

[Mr. M. J. W. Coldwell, M.P.]

Now, in order to get the answer to this question, may I say that in the discussions that have occurred before the committee, it has been quite obvious that it is easy to lose all sense of proportion—

The CHAIRMAN: Hear, hear.

Mr. COLDWELL: —in studying the complexities of the financial system.

It is equally obvious that to many money is wealth, whereas the fact is that money, and the procedure by which money, or credit, which is so large a part of our so-called monetary system, is created, issued and permitted to be used, is never anything other than the accounting system for the actual property rights which are distinctive of the economic system within which we operate. This is the central governing purpose for which money came into existence, and for which I believe it exists.

Hence, one of the principal objects of a central bank must be to provide a fairly stable measurement which can be used for the accountancy and transfer of property rights between individuals who need that service.

The CHAIRMAN: Are you speaking now of a socialist system?

Mr. COLDWELL: I am speaking of any system.

The CHAIRMAN: Would it not be different?

Mr. COLDWELL: No.

The CHAIRMAN: When you talk about the transfer of property?

Mr. COLDWELL: Well, you will see in a moment that I endeavour to show—

The CHAIRMAN: I did not mean to interrupt.

Mr. COLDWELL: —that within our present economic system property is more or less concentrated in the hands of a few and tends to become more concentrated instead of less concentrated.

The CHAIRMAN: That is why I asked the question. Surely there would be a difference between the capitalist system and the socialist system in regard to the transfer of property and use of money for that purpose?

Mr. COLDWELL: Yes, there would be some difference, but not perhaps to the extent or in the manner which some people imagine.

What this system or any system requires is that there should be for the sake of convenience for the distribution and exchange of property some token forms which will not relate to any particular goods but which will measure the comparative property rights in any goods. That answers the Chairman's question, that in any system you must have some means of exchange.

Since we operate in a system based almost entirely upon private property, it follows that as long as the property system remains, the essential purpose in the dispersal of goods is not to put the consumer in possession of the goods he needs, but to recover for the property system in money form the equivalent of the goods it has distributed in that way—the most desirable market condition being that which yields the most money for the fewest goods or least labour—in other words, the opportunity of making the most profit.

Mr. DEACHMAN: Is that the characteristic distinction of the capitalist system?

Mr. COLDWELL: One.

Mr. DEACHMAN: Of getting the fewest goods for the least labour?

Mr. COLDWELL: I think it is becoming more and more so.

Mr. DEACHMAN: Has there been an expansion in the earning power of the individual or of the income in Canada since 1914?

Mr. COLDWELL: I will answer that question in this way, Mr. Deachman, that in proportion to the possibilities of production, the ability to obtain goods is relatively not greater among the masses of the people to-day. I am speaking in relative terms.

Mr. DEACHMAN: What do you mean by "relative" in that sense, as, say, between myself and my father?

Mr. COLDWELL: Of course, I do not know what the conditions of your father were.

Mr. DEACHMAN: Rural Ontario fifty years ago.

Mr. COLDWELL: In proportion to the goods that then existed I think in all probability that your father could obtain as large or a larger proportion of available goods than you are able to obtain under the present economy.

Mr. DEACHMAN: I do not want to interrupt but my suggestion is essentially based on the thought that owning to the development of the capitalist system in those fifty years the size of the pie is much greater?

Mr. COLDWELL: Quite.

Mr. DEACHMAN: And therefore as to the division of the pie there is a larger amount of pie for each?

Mr. COLDWELL: Quite right. But in proportion to the size of the pie fewer people get more of the pie than years ago. At least, that is my opinion.

Mr. CLEAVER: That is, you admit that there is a distinct improvement in the general standard of living, but you say that that improvement has been greater as to a few?

Mr. COLDWELL: That is right.

The CHAIRMAN: Real wages in the United Kingdom are supposed to have increased four times since the Napoleonic wars.

Mr. COLDWELL: That is right.

The CHAIRMAN: And that would be distinctly under the capitalist system.

Mr. COLDWELL: That is right. On the other hand, of course, the possibilities of production have increased more than that.

Mr. CLEAVER: Before you leave that other point, if you do not mind these interruptions—

Mr. COLDWELL: No, I do not mind.

Mr. CLEAVER: I understood you to suggest a few moments ago that more profits were made where the price was high with respect to cost than under ordinary circumstances, and I was just going to suggest to you that perhaps you had overlooked the fact that in many industries to-day large quantity production at lower prices has meant more actual return to the investor.

Mr. COLDWELL: That is quite right. No, I have not overlooked that. But the point I am making is this: That the system, no matter what the need is, dare not produce more goods than can be purchased, otherwise the price will fall and profits cease. So that it is in reality a scarcity economy rather than an economy of plenty.

Mr. CLEAVER: I thought you were coming to that and that you were trying to suggest that the capitalist system could only function under scarcity; That scarcity was the underlying foundation of the system; and I am just reminding you that in many industries a plenteous production has meant more profits. Let me give you one illustration. The orange crush company made more money when they reduced the price of their product from 10 cents to 5 cents a bottle. They sold many more bottles.

Mr. COLDWELL: Quite right. But there are exceptions to almost everything that you could think of.

Mr. CLEAVER: You do not think the exception proves the rule?

Mr. COLDWELL: No.

Mr. DEACHMAN: Take the case of England where the wealth production is five times greater than it was in 1914. Surely that vast increase of wealth indicates at least the capacity to provide a higher standard of living?

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Mr. Coldwell: Yes, the capacity.

Mr. Deachman: And has provided a higher standard of living.

Mr. Coldwell: If we speak in relative terms I would not quite agree with you. As you all know, I was born in England. Taking the relative standard of living in the rural districts, where I was born half a century ago, and the standard of living to-day, there is an improvement, a marked improvement. But my contention is that relatively with the possibilities of production that improvement has not been as great as it ought to have been. However, that is a matter largely of opinion.

The Chairman: Proceed, Mr. Coldwell.

Mr. Coldwell: This is the crux of the capitalist system and those who say that we can maintain the capitalist system and at the same time issue consumers' purchasing power to everyone apart from an equivalent return in goods or services are suggesting the impossible.

Now, the maintenance of the capitalist system—I think you all agree with this, at least,—depends upon the rigid—and I use the term "rigid" designedly—maintenance of private property; hence the money it creates and issues is exclusively a property token issued only to owners of sound property securities in exchange for it. Only by its disbursement for services rendered can the working consumer, whose property is his labour, obtain it.

Thus it will be seen that the governing factor in relation to money and credits is not money and credits, but the property for which money is the token. I want to emphasize that point; that one cannot think of money and credit without thinking of the goods and the services that form the basis.

Mr. Deachman: Are you including land in that?

Mr. Coldwell: In what?

Mr. Deachman: You say you cannot think of it without thinking of goods and services; are you going back to land?

Mr. Coldwell: No; I do not want to argue that point. I shall refer to it briefly a little later, and if I do not I would be glad to get your question then.

To issue this in large quantities, and to maintain its velocity, can only have the effect of increasing the number of tokens and thus the amount of money demanded by the property system in return for goods which are the property of the system, considered as a whole.

This is what is know as inflation, and of course—I never lose sight of this fact—during inflation those who suffer most are the persons in receipt of pensions and of fixed incomes, and the wage earners.

The consequent rise in prices marks a reduction in their real incomes and wages and hence decreases their ability to consume the goods of which the economic system must dispose. Conversely an insufficient supply of tokens reduces prices so that production becomes unprofitable, the primary producer suffers, unemployment supervenes and economic disequilibrium causes unrest and social discontent.

Hence the central problem of any monetary and banking system, in an attempt to maintain equilibrium, is the fact of the ever expanding possibilities of scientific production and rising standards of life.

The paradox of capitalism, that of property and want in the midst of plenty, is due to the fact that millions of people—and for the sake of a name we will call them the workers—are hired not to produce goods to which they themselves have a title but to create goods which pass into the owners' warehouses within the property system.

Mr. Cleaver: Or is the paradox caused by a few rules being necessary, rules of the game?

Mr. Coldwell: I do not think so. I think it is deeper than that.

Some of these goods only, they may obtain by handing over the property tokens which they themselves have received for their labour. I think that is obvious.

Mr. McGeer: You made a statement a few moments ago about the issue of money and I did not quite catch your statement. Would you mind repeating it for me, as to whom the money was issued? You put a limitation upon the people to whom the money was issued in the capitalist system.

Mr. Coldwell: Oh, yes. I said that money was issued to those who could provide sound security for that money, and I excluded, of course, certain exceptional cases, under relief circumstances, and so on.

Mr. McGeer: Pensions?

Mr. Coldwell: And pensions, yes.

Mr. McGeer: Of course, wages are included in that exception too, are they not?

Mr. Coldwell: No, because the wage-earner has something to sell.

Mr. Plaxton: And has sold it to get the money.

Mr. Coldwell: He sells his labour to get the token which enables an exchange of property.

Mr. McGeer: He may or may not produce something, because in the capitalist system the failure of private enterprise as well as the success of private enterprise contributes to the going concern activity of the general system. For instance, there are a great many cases of where men possessed of property put their money into investments which turned out to be losses.

Mr. Coldwell: Quite.

Mr. McGeer: And although the wage earners who receive wages during that period get paid the result is there is not the return commensurate with the distribution—

Mr. Coldwell: You see, Mr. McGeer, there is a real difference between your thinking and mine regarding money. You say an investor invests money; what he really does is to relinquish a token for property, and if he loses his money it has simply transferred property to which he might have had the title to somebody else, and the property is still there.

Mr. McGeer: That does not happen. You have, as you do have in the capitalist system, the incentive of reward. Whether you are successful, it carries with it the risk of loss when you fail—

Mr. Coldwell: I am not discussing that.

Mr. McGeer: No, but then under the capitalist system the wage earner benefits not only from successful private enterprise, but in a good many instances, he benefits from unsuccessful private enterprise.

Mr. Coldwell: Quite. I am not worried about that point at all, because as a matter of fact the property of the worker, his labour, is exchanged for tokens to property that exists, and whether the man who once owned the token or not loses or gains, it makes no difference to the point that I am making, the exchange of the property has been effected.

Mr. McGeer: It does make a difference when you lay down the proposition that the only basis of the issue of money on a capitalist system is to a class that are certain to produce the equivalent of the money value.

Mr. Coldwell: Do you mean to tell me that the investor who invests in business, that gains or loses, issues money in the sense in which I am using it, or you usually use it?

Mr. McGeer: Why, of course he does, because on our whole debt claim system—

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Mr. COLDWELL: I thought the whole basis of your argument before this committee was that the banks issued money.

Mr. McGEER: The banks issue money to people who succeed and who fail.

Mr. COLDWELL: Yes, but that does not alter my position whatsoever, but it fundamentally alters yours. However, I should like to proceed.

The CHAIRMAN: Proceed.

Mr. COLDWELL: I do not want to go off on side issues. I may tell you, Mr. McGeer, that when you were before the committee I did not interrupt you.

Mr. McGEER: I do not wish to interrupt you.

Mr. COLDWELL: But I am quite glad to get the occasional question. If the financial system of the capitalist system were to create tokens and distribute them directly to all who did not possess property rights to the equivalent value, it would be destroying the very purpose for which it was designed. It would no longer be an accurate piece of accountancy for the property system and would become claims to take goods for nothing. It would, in effect, have exactly the same economic result as the issue of counterfeit money.

If you follow this and agree with me it will be seen that the poverty stricken consumer is not short of goods because he is short of money. He is short of money because he has no way of creating a property right to goods and therefore, in the capitalist system, is not entitled to tokens for them.

Mr. LANDERYOU: You asked me if I agreed with the first statement that money could only be issued against property. Who created all that credit during the war years, particularly the $40,000,000,000 made available by the United States to the allies for the continuation of the last great war, and the money that was made available in Canada and the other countries of the world? Was that backed by goods?

Mr. COLDWELL: Just a minute, Mr. Landeryou. I have no objection to answering that question at all but you find that a little later I proceed to cover that point. It is true that governments of the various countries did issue large quanities of money—

Mr. LANDERYOU: They did not base it upon goods.

Mr. COLDWELL: Wait a minute. They did not base it upon goods, you say. They did base it upon goods, and that was quite obvious, because as these big issues of money went into the money market the prices of those goods increased and the money issued by the government was more or less recovered through the increased prices of goods.

Mr. LANDERYOU: Then there was no advantage in issuing $40,000,000,000 because it just meant an increase in prices.

Mr. COLDWELL: Well, that is a comment. Under certain circumstances, as I shall show in a minute, there might be the advantage—

Mr. McGEER: Can you show me any instance where the theory of issuing money as against property to the point of creating the right to establish a title to property is in operation?

Mr. COLDWELL: I beg your pardon?

Mr. McGEER: Have you any example of where the proposition of divorcing the idea of money buying power from the right of people to get goods into the proposition that you enunciate of establishing more power on the part of people to a title to goods?

Mr. COLDWELL: Yes.

Mr. McGEER: Have you any idea how that could be worked out?

Mr. COLDWELL: I would say this, first of all, that what I have been saying regarding the exchange of goods through the use of money is, I think, implicit under our present system. My contention is that if we are to get a wider dis-

tribution we must have a wider distribution of property and we believe that that will be brought about by an evolutionary process through what we commonly call a planned economy structure, and the steps towards that economic planning and the restoration of ownership of the great masses of the people will be first dealt with by dealing with the great monopolistic industries that ought to be public services.

Now, you have to bear this in mind, that in order to get over the point that I am trying to convey you have to consider all that I am going to say.

Mr. McGeer: Well, of course, but what I have always had in mind was that even when you established public ownership those different individuals who are employed—for instance, take the Soviet scheme. I have thought that their recognition of a public utility service in money for the purpose of distributing tokens that the people of Russia use was, after all, still evidence that even in a socialist state the circulation of money was there more or less as the economic blood-stream of the socialist system.

Mr. Coldwell: I have not said anything in opposition to that. In fact, I said in any system you must have a medium of exchange.

Mr. McGeer: The point I had in mind was that whether you changed from money bases, giving power to some other title to property giving power—

Mr. Coldwell: My point is that only those who have property rights, except in exceptional circumstances, can obtain money.

The Chairman: Mr. Coldwell, when you use that phase "property rights" you mean capital goods, do you, as opposed to consumer goods?

Mr. Coldwell: No; I am using the term for all types of goods.

Mr. Plaxton: That would include labour.

Mr. Coldwell: As I have said, that would include a man's labour that he had for sale, as his property.

Mr. Cleaver: Your contention is, under the present capitalist system, that all individuals under that system do not receive their proper commensurate share?

Mr. Coldwell: That is what I am developing.

Mr. Cleaver: To title goods.

Mr. Coldwell: And further that proposals merely for the issue of large volumes of currency and credit would not—

Mr. Cleaver: It does not answer the question unless you start giving it away.

Mr. Coldwell: It does not—

The Chairman: Gentlemen, I think really, and I include myself, we are anticipating what Mr. Coldwell is going to say. Why not allow him to go ahead and develop his argument? He probably will answer the questions in a minute.

Mr. Coldwell: I said that money makes its original entry into the economy as an issue of tokens against certain acceptable securities or property rights. Banks, therefore, do not create money and credits out of nothing but on the contrary out of very real and tangible rights to the ownership of property already in existence. I want to emphasize that point. To say that credits are created or loans made against future production is manifestly incorrect—

Mr. Taylor: What was that again?

Mr. Coldwell: To say that credits are created or loans made against future production is manifestly incorrect, for such credits or money are created or loaned against property which already exists and to which the borrower relinquishes title, temporarily at least, but effectively to the lender. This,

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under capitalism, is merely sound business practice, and to attack the banks because they refuse to make loans which will not bring them profit is to request them to do something which no capitalist enterprise can do and continue to exist.

Mr. DEACHMAN: Now, finish that right at that point. Tell us how socialism would do that.

Mr. COLDWELL: Just a minute. The trouble lies not in the banks apart from the system but in banking as a part of the profit, property or capitalist economy.

To-day we are faced with the breakdown of the economic system. The abundance of a scientific age can no longer be passed through the old channels of distribution. This is not because the capitalist system fails to distribute sufficient purchasing power by way of wages, salaries, rents, interest and profit but because purchasing power is distributed so unevenly that only a part of the consumable goods and services produced can find a market. That is my opinion. Too much of the available purchasing power is given to a few people who cannot consume the goods and services they could buy, while too little goes to many people who could consume the goods and services they cannot buy.

This was brought out very clearly by the American committee which made a national survey of potential productive capacity in the United States in 1932. They came to the conclusion that if used to capacity the American economy could provide goods and services equal to an income of some $4,300 a year, stated in money terms at that time, 1932, for every family of four persons in the United States.

Mr. CLEAVER: Would not the obvious answer then be that we should enact sufficient new rules to offset the practice of big business, the practice of the monopoly parties and other things which bring about this unequal distribution?

Mr. COLDWELL: That is to say that our legislative bodies should attempt to control capitalism?

Mr. CLEAVER: Well, on account of the growth of capitalism new features have arisen which must be met by new legislation.

Mr. COLDWELL: Yes, I agree with that, and I would say this, that I believe will be the process of evolution.

Mr. CLEAVER: In other words, you do not throw away an automobile because you blow a front tire; you mend the tire.

Mr. COLDWELL: Mr. Moore suggested I might place this point of view before the committee. I am doing it. But I am not under any illusions regarding these matters. I do not expect to see all the things that are implicit in what I am saying done overnight. I believe that society progresses step by step and over a period of time.

Mr. DEACHMAN: There is one question to which I am very anxious to get an answer. You believe the banks would not be able to loan money or advance capital, we will say, unless it was profitable. How could you, under a socialist state, do any better? How could you advance money to institutions which could not maintain their property; as, for instance, the Canadian National Railways?

Mr. COLDWELL: Well, just a moment; you mentioned the Canadian National Railway. I do not agree that the state should not, or that the banking system within the state should not provide for, we will say, the Canadian National Railway because it is a service which is of primary necessity to a country like Canada which cannot do without railways.

Mr. DEACHMAN: Now, this might be a better example: suppose there was a factory to be started in this city. Under capitalism the money can only be advanced to it or will only be advanced to it if it is profitable, otherwise the capital invested is lost. What would you do with that under socialism?

Mr. Coldwell: Under a socialist state the question would not be asked as to whether this industry was likely to be profitable; the question that would be asked would be, is this industry likely to be useful and necessary?

Mr. Deachman: In case it failed to be useful and in case it failed to earn enough to maintain its property, that money would be lost. How would that be worked out under socialism? You are destroying your capital.

Mr. Coldwell: You are thinking in terms of capitalism, and I am thinking in terms of another system entirely. Now, I am thinking in these terms: that an industry which was useful and necessary would not become to this community an unprofitable industry; it would be distinctly profitable.

Mr. Deachman: I cannot follow that. Supposing the factory started and the people were unable to accept its goods, and they must make some adjustment, then the capital invested in that industry would be destroyed.

Mr. Coldwell: May I ask you this question: why would not the people receive the goods?

Mr. Cleaver: I take it that you raise the rates to the point where the scheme would pay.

Mr. Coldwell: It would be bad judgment on the part of the economists who would be advising those in control of industry—and of course you get bad cases—and there would be a loss.

Mr. Deachman: You must admit their judgment would not be any better than that of economists to-day because there would be the same men functioning and the same man at the head of the central bank.

Mr. Coldwell: I am not talking of the central bank.

Mr. Deachman: I threw that in for the benefit of Mr. Towers.

Mr. Coldwell: As a matter of fact—

The Chairman: That is our reference.

Mr. Coldwell: Although I believe that the operations of our banking system are to some degree anti-social in this sense that they do not serve society as they ought to serve it, I am quite willing and ready to assert this, that they are among our most efficient capitalist institutions from the point of view of the people owning and controlling those banks, and I think they take the advice—if it is tendered to them—of their economists because economists give the advice on the basis of protecting the banking institutions and making a profit.

Mr. McGeer: Will you permit me one question because I have to go to another committee?

Mr. Coldwell: Yes, Mr. McGeer.

Mr. McGeer: Now, what is the suggestion? It is not because there is not enough money issued but because it is unequally distributed?

Mr. Coldwell: That is right.

Mr. McGeer: What I suggest to you is this: in our system do you not agree that if we expended larger sums of money on pensions to the aged, taking care of children, and on education and health training, on the development of public parks, beaches, winter play-grounds, and on the general beautification of city and countryside, and in such things as research work, and the maintenance of order internally and externally, that that type of distribution of money would not improve the lack of consumers?

Mr. Coldwell: I am sorry, Mr. McGeer, that you cannot stay, because at the close of what I am going to say I shall say something about that. I agree with you thoroughly.

[Mr. M. J. W. Coldwell, M.P.]

Mr. McGeer: The only point I wanted to make was this: that in addition to there being an unequal distribution, it may be that in some channels of activity there is a want of sufficient distribution.

Mr. Coldwell: Quite. That is what I am saying.

Mr. McGeer: And that as far as the capitalistic system—without going to socialism—is concerned there is opportunity for vast improvement providing one thing—

Mr. Coldwell: Quite.

Mr. McGeer: —that we do not make the cost of that money too burdensome to the people able to pay taxes.

Mr. Coldwell: Quite. I agree with that. I was going to say something like that in a few minutes.

Mr. Plaxton: Are you proposing a system that is completely workable within the confines of one country?

Mr. Coldwell: Yes.

Mr. Plaxton: Regardless of the fact that that country is not self-contained as to raw materials and food?

Mr. Coldwell: I will answer that question in this way, Mr. Plaxton, that in the evolution of any system of society—and the world has passed through constant evolution from one form to another form—there have always been states that have been far ahead of other states in that evolution, and invariably our experience in the past has been that human ingenuity has always been able to meet those situations as they arose, and I believe that in the transition which is coming—because whether we approve of that transition or not I think to-day every thinking man almost who makes a study of our social and economic affairs realizes that we are in a period of transition—and in that transition human ingenuity will be able to balance things as between state and state in a real world.

Mr. Cleaver: Under almost any type of system.

Mr. Coldwell: Yes. In fact, we have seen in the last few years the fascist states producing one kind of economy and state capitalism—I think that is a better description for Russia—with another kind of economy, and yet gradually the nations of the world are able to or will be able to reconcile those conflicting commercial interests in the international sphere.

Mr. Landeryou: There is one question I would like to ask you along that line. If you socialize the means of production—that is what you have recommended, socializing the means of production—

Mr. Coldwell: Ultimately; the principal—I would qualify it—the principal means of production.

Mr. Landeryou: You also contend there will be a monetary system in operation, do you not?

Mr. Coldwell: Quite.

Mr. Landeryou: Now, what plan have you for distributing purchasing power to the people when you socialize the means of production? How are you going to distribute the goods?

Mr. Coldwell: Well, Mr. Landeryou, you have asked me what plans I have for distributing the goods; that is the question I asked you the other morning. I will answer that, however.

Mr. Cleaver: Give us the beer can story.

Mr. Coldwell: I will answer it. If the state owns and controls its natural resources, its principal means of production—that is the ability to produce more goods—those who perform any useful function within that state would receive the reward for the services they render.

Mr. CLEAVER: Who would determine that?

Mr. COLDWELL: Now, who would determine that?

Mr. CLEAVER: That really predicates an autocracy, does it not?

Mr. COLDWELL: No, it does not. It does not predicate an autocracy at all. In fact, it predicates the very flowering of democracy; because within a state the organized producers of every kind and description who would also be the organized consumers would, through their representation and their representatives, decide what was a fair and just remuneration for the various services rendered. In other words, you would get complete self-government.

Mr. HOWARD: We would not get much.

Mr. COLDWELL: I do not know about that. May I proceed?

The CHAIRMAN: Yes, Mr. Coldwell, proceed.

Mr. LANDERYOU: Mr. Coldwell suggested that he asked me a question and I refused to answer it, and I would like to know how he would distribute that purchasing power.

Mr. COLDWELL: I think I answered it.

Mr. LANDERYOU: I did not understand your answer.

Mr. COLDWELL: If you cannot understand it, that is not my fault.

The CHAIRMAN: Proceed, Mr. Coldwell.

Mr. DEACHMAN: There was one little question which I think would solve this whole matter, if you would answer it. In a socialist condition naturally it is left to the people to distribute the wealth by their own action; what share would come from Mr. McGeer and what share would come from Mr. Jaques?

Mr. COLDWELL: I leave that to your imagination.

Now, the real trouble, in my opinion, is in the capitalistic economy which distributes so much money to a few people, that this money is not available to buy consumers goods. This is the inevitable result of the property system, and no monetary reform schemes which fail to take note of this fact—some of them do, of course—can succeed.

Mr. CLEAVER: What do you mean by the property system, and where would you draw the line?

Mr. COLDWELL: I pretty well defined that.

The CHAIRMAN: I confess I did not understand you.

Mr. COLDWELL: All right, Mr. Chairman, for want of a better word I called it the property system.

The CHAIRMAN: Called what the property system?

Mr. COLDWELL: The system under which we live to-day.

The CHAIRMAN: Oh, I understand; the capitalist system, private property.

Mr. COLDWELL: Yes, but I did not want to introduce the word capitalist if I could avoid it, because you might have a discussion on "What is capital?".

The CHAIRMAN: That explains that matter because socialism has a property system, but a different ownership of capital goods.

Mr. COLDWELL: Yes, a personal property system. Moreover, the present capitalist system is, as I remarked before, essentially a scarcity economy. Now, Mr. Deachman does not agree with me, but we have seen over and over again that plenty is a menace to its price and profit structure and hence the recent developments in the realm of power production have brought mankind face to face with the inherent defects of the system. So grave has the crisis become that one might almost say the world is in the throes of a chronic or continuous depression. Hence men and women surrounded by goods and with possibilities of producing many more are apt to say: "Our trouble is we have no money."

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Mr. DEACHMAN: Silence does not give consent.

Mr. COLDWELL: They fail to see that the reason they have no money lies deeper than a faulty banking system or the alleged stupidity of those who operate it.

The CHAIRMAN: Hear, hear.

Mr. COLDWELL: Such a shortage of money they think is brought about not by faulty control of the machinery of production and distribution but in the control of finance and its faulty mechanism. This, in my opinion, mistakes the shadow for the substance of real things. We believe that monetary and social reform are important, indeed fundamental steps in any reform movement, but we insist that it must be related to and keep abreast of reform in the whole economic structure. In other words, it must be part of an evolutionary process resulting from the rapidly changing, scientific, mechanical and social environment. For us this evolution must be directed, consciously involving, as it does, the co-operative effort of the community to plan constructive action in the production and distribution of things needful to the good life, as we might call it. It follows then that the community must control its natural resources and those monopolistic and basic industries upon which our life as a community depends. This does not involve the destruction of the idea of private property. Indeed to-day there is too little private property owned by the many and too much public property owned by the few.

Mr. CLEAVER: It is really the amount of profit you are complaining of.

Mr. COLDWELL: Yes, distribution. Our aim should, therefore, be: more private property for more people which involves less private property for the few people.

Mr. LANDERYOU: Would you suggest breaking up the farms into smaller ones?

Mr. COLDWELL: No. That question I think is quite unnecessary, because I am speaking of monopolistic industries.

The CHAIRMAN: Give us an example, Mr. Coldwell.

Mr. COLDWELL: An industry?

The CHAIRMAN: That is monopolistic.

Mr. COLDWELL: I think perhaps I can give you several examples.

The CHAIRMAN: Give us one.

Mr. COLDWELL: I would say farm implements.

The CHAIRMAN: No, there is very strong competition, I assure you.

Mr. COLDWELL: Now, Mr. Moore, I happened to have been a member of the committee which went into the prices of farm implements.

The CHAIRMAN: Yes.

Mr. COLDWELL: And I think it was pretty well the unanimous opinion of that committee that one company, the International Harvester Company, controlled 60 per cent in all of the production and was in reality a monopolistic industry, since it was able because of its size to set the prices for the products of the entire industry.

The CHAIRMAN: I think you are wrong.

Mr. COLDWELL: I heard the evidence, and that was the conclusion pretty well generally.

The CHAIRMAN: I am in a somewhat embarrassing position in regard to the matter. I know you are wrong.

Mr. COLDWELL: And I was just going to say the Imperial Oil Company, the Imperial Tobacco Company, and a number of others.

Mr. DEACHMAN: You will admit that many of these large corporations have shown us the greatest operating efficiency and the greatest price reductions?

Mr. COLDWELL: Quite. I am not saying that, I am pointing out further that these monopolistic industries might be made to serve us even better than they have.

Mr. CLEAVER: Your sole complaint being excess profits in the hands of a few.

Mr. COLDWELL: And control too.

Mr. CLEAVER: Yes; would not the obvious thing be to seek ways and means of restraining or preventing these extra profits?

Mr. COLDWELL: What I am suggesting is as it were a goal to which we must move by definite steps, some of which will readily occur to you. Now, nothing short of this basic reconstruction will serve to remove all—I emphasize the word all—the consumer disabilities which the present economic structure contains. Some, yes. Our problem therefore is primarily not one of the issue of credit or of new ways of using the so-called purchasing power, but one of the control and distribution of real goods themselves. That is, we realize this; we should consider the financial system as not only an accountancy system but as a method of relating our productive possibilities with our consuming capacity not, as now, as a means of restriction, of our consumptive capacity—a profit necessity. Our movement has placed in the forefront of its program the socialization of the banks and gives as our immediate objective as distinct from our long-range objective; (*a*) to place the entire issue and control of currency and credit under the publicly owned and controlled Bank of Canada. We would have to keep that before this committee. And (*b*) To bring other banking and credit institutions under public ownership and control so that the financial system should become the instrument of public economic policy and social progress. We believe that it is possible through democratic action and control to plan our production and distribution so that the actual and potential abundance may bring security and "the good life" to every Canadian citizen. Such a process must be evolutionary, rather than what is sometimes called revolutionary; and in that process of social and economic evolution monetary and financial reform must find its proper place.

Mr. CLEAVER: What evidence have you from the few experiments which we have already made in the socialization of industry that socialized industry will be more efficient than privately owned industry?

Mr. HOWARD: It won't.

Mr. COLDWELL: Mr. Howard says it won't.

Mr. HOWARD: I will give you an example afterwards.

Mr. CLEAVER: The witness (Mr. Coldwell) must think it is so or he would not advance those views.

Mr. COLDWELL: I think that in the main, properly planned, it would be more efficient; so long as you have this in mind, that within our present system where you have a co-operative or socialized industry that co-operative or socialized industry must play the game according to the rules of the system within which it operates, which creates difficulties; but in spite of that I would say this, that in this very province of Ontario the Ontario Hydro Electric Company, for example, has been a very highly efficient publicly owned utility.

The CHAIRMAN: There are two points of view there.

Mr. COLDWELL: Two points of view, Mr. Chairman; but as to this I am giving my views.

The CHAIRMAN: Before you go on, Mr. Coldwell; I am as strongly opposed to monopoly, if not even more strongly opposed to it than you are. It seems to me this is the position when you speak of monopoly existing in Canada, and

we have had some illustrations of it, you speak of quasi monopoly. For instance, in the textile industry if there is any form of monopoly it is a quasi monopoly. Now then your suggestion is that we ought to have absolute monopoly under state ownership. My suggestion would be that we bring it out of the very appearance of monopoly and restore competitive services to society. Those are the two points of view, don't you think?

Mr. COLDWELL: Yes. And I think I may say this without any reservation, that if it were possible to go right back to the old competitive system in every possible form—

The CHAIRMAN: I believe it is.

Mr. COLDWELL: —national or international we might still find that there would be a rough and ready reconciliation of difficulties within that old competitive system; but I believe that the return of the old competitive system is utterly impossible. And consequently—

Mr. CLEAVER: Why do you arrive at that conclusion?

Mr. COLDWELL: Mr. Cleaver himself asked me that very question a little while ago.

Mr. DEACHMAN: The vested interests of labour and capital are too strong.

Mr. COLDWELL: Yes, the vested interests of labour and capital are too strong; and, Mr. Deachman, I will agree with you that labour has a vested interest.

Mr. HOWARD: Sure.

Mr. COLDWELL: There is no question about that, but I mean—

Mr. DEACHMAN: We are bringing legislation now before the house to prove that.

Mr. COLDWELL: That may be so. I am saying it is a vested interest because an organization within a given economic system must of necessity get a vested interest in that system after it remains within it.

Mr. PLAXTON: You are suggesting then the elimination of the vested interests of labour as well as capital.

Mr. COLDWELL: No. If it were possible I think the competitive system might work in a rough and ready way. I said that before.

Mr. PLAXTON: You are suggesting the elimination of the social and vested interests of labour.

Mr. COLDWELL: No, I am not. Don't misunderstand me. I say you cannot eliminate it, and in the new society which to-day is evolving you are going to have a nation-wide increase of organizations in any event, whether it is in an advanced form of capitalism or not; consequently, the point that you have to decide is whether you are going to let capitalist monopolies rule you or you rule them.

The CHAIRMAN: Let us rule them.

Mr. COLDWELL: That is the question, and I say we have got to rule the monopolies.

The CHAIRMAN: No, no; you suggested that we should have one big monopoly.

Mr. COLDWELL: Oh, no. If it is a monopoly of the will of the Canadian people, or any other people, then I say that is the highest form of democracy; it would be the will of the people.

The CHAIRMAN: They would argue that way. Now I begin to follow you. And that is social democracy.

Mr. LANDERYOU: Would not that mean that the interests of the workers would be disturbed through the use of solar energy in place of human energy; by that, of course, I mean the use of machine-power as compared to man-power?

Mr. Coldwell: Of course, I did mention power production, but to my mind the more power production we get and the more the necessity for human labour is eliminated, if we have the intelligence we ought to have, the better off we ought to be.

Mr. Landeryou: If these men are displaced from industry and you have socialized means of production and you cannot supply them with the requirements they need, how are you going to distribute these goods to them?

Mr. Coldwell: I think I dealt with that in part.

Mr. Landeryou: They are making no production because they are eliminated.

Mr. Cleaver: They are not necessarily eliminated under a proper set-up, they would be free to make other things that were needed.

The Chairman: Go ahead, Mr. Coldwell.

Mr. Coldwell: Not only that, there is no reason in the world why if you eliminate the necessity for large quantities of work you are not dividing more or less the work that remains and instead of having unemployment, which is leisure in poverty, you could have leisure in abundance and enjoy it.

Mr. Cleaver: Yes, or a higher standard of living.

Mr. Coldwell: That is it. I have said that a purpose, not the sole purpose, of a central bank was to secure sound equilibrium in the economy of the nation. Taking 1926 as the base year at 100 as the index price, we find the wholesale index to have been 95·6 in 1929 and 73·3 in January of this year. This would indicate that we are suffering from a serious deflation of prices at the present time.

Mr. Cleaver: Have you the intervening figures?

Mr. Coldwell: Yes, I have.

Mr. Cleaver: For the intervening years?

Mr. Coldwell: I have them here somewhere. I just took 1926, 1929 and 1939.

Mr. Deachman: Give us 1933.

Mr. Coldwell: Consequently I am of the opinion that a considerable measure of reflation even from the level at which we are now might be undertaken to advantage, and of this situation the Canadian government might make the Canadian farmers and workers the beneficiaries.

Mr. Deachman: They are doing that.

The Chairman: Order, order.

Mr. Coldwell: In the House of Commons we have had the suggestion for the issue of a very large amount of new money. I think the amount contemplated was some $750,000,000, which would retire maturing bonds, provide for the retirement also of outstanding treasury bills and leave a large amount for a public works program. Now, in my opinion the issue of $750,000,000 of new money all at once would dislocate our economy and would not achieve the results expected of it. Its effect would clog the financial system and create a condition which might cause even more difficult conditions. In other words, most of the issue would pass immediately into the hands of persons and financial interests who would have no other use for it than to place it in banks for re-investment in securities of a similar nature. If they did that the net result would be a rise in the monetary value of government bonds for sale on the bond market, and other gilt-edged securities. When these became exhausted or rose to a maximum of attraction from the standpoint of return on investment these people and interests would turn to less desirable types of investment with the result that a severe financial crash might follow. All this might be one effect of this issue to the owners of government bonds. There is no guarantee that any con-

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siderable part of the issue would benefit the workers and the farmers to any extent, or that such a course would be beneficial to them. You will notice then that I am opposed to this original suggestion because of a number of factors, but not altogether on the grounds of inflation, on other grounds. That argument, that is the argument of inflation, under present conditions does not frighten me. However, I am convinced that to-day we are suffering from deflation of prices, and unemployment, and that the fall in value of our commodities in the past several years must be arrested and co-related to a price rise to the producer or our entire economy will suffer. I am therefore not opposed, on the ground that I have already given, to the proposed issue of a large amount of national money by the Bank of Canada at the direction of this parliament. I am opposing the method originally suggested by Mr. Landeryou himself because I do not believe it would attain the results which he desires or expects.

Mr. Landeryou: We were just dealing with the subject of debt at the time.

Mr. Coldwell: That is my own opinion; and if it came before the house, I would move an amendment.

Mr. Landeryou: It was not the issue of new purchasing power we were dealing with. It was the issue of money to retire debt, if my friend will remember.

Mr. Coldwell: That is what I said, precisely, to pay bondholders for the amount that was maturing.

Mr. Plaxton: You just started to give where that money would travel afterwards.

Mr. Coldwell: I would suggest that we could issue an amount of new money, say, up to around $100,000,000 for public works, and I am going to ask Mr. Towers perhaps one or two short questions on that afterwards. Our two most pressing problems at the moment are unemployment and the low prices of agricultural products. To pay the bondholders many millions of dollars might not affect these problems to any appreciable degree for a stimulation of production resulting in greater employment and a consequent demand for farm products would depend entirely upon the re-investment of these funds by private capitalists and corporations. If, on the other hand, this government authorizes the Bank of Canada to issue, we will say, up to $100,000,000 worth of currency free of debt, as my friend put it, to finance a comprehensive programme of public works, social services and housing, the money would pass immediately into the hands of persons who need more food, more clothes, more houses, more furniture, more of everything that industry and agriculture produce.

Mr. Taylor: Which are inequitably divided.

Mr. Coldwell: This would improve the demand for milk, butter, cheese, eggs, meat and other agricultural products and would immediately benefit the farmer. I take it that these are the groups which today suffer the most from the current economic chaos.

Mr. Landeryou: Might I ask a question? I am in favour of that.

Mr. Coldwell: Would you mind waiting? We should also keep this in our mind—and this is where probably there is an answer to those who say that what they are doing in New Zealand may bring about something of a collapse there. We should keep this in mind, that when that money had been spent, the nation would have public works, houses and services to the value of the sum issued; the farmer and the unemployed would have furniture, would have enjoyed food and the amenities they now lack; municipalities would have certain tax arrears paid and lending institutions would have loans repaid and put it to better shape. The manufacturer and retailer would also benefit and our economy would receive a pronounced stimulus. If we are going to try such an experiment, then I say let it be tried in the manner in which it will be apt to do the maximum good, not pay off the bondholders, but pump it in at the bottom.

Mr. CLEAVER: How would you propose to pump it in at the bottom, as you say?

Mr. COLDWELL: You distribute it largely in wages for public works and construction projects that require a great deal of labor. That would go in at the bottom.

Mr. DEACHMAN: Regardless of whether or not they are economically profitable or would improve the economic productive power of the nation?

Mr. COLDWELL: At the moment we are faced with a dilemna. That dilemna is the continuance of the present unemployment and poverty; and at the risk of something being novel or economically unsound from the point of view of the orthodox economist, I would say the experiment is worth trying.

Mr. DEACHMAN: I have a better way of doing it, but I am like the rest of them.

Mr. COLDWELL: May I suggest this—

The CHAIRMAN: You have the floor.

Mr. COLDWELL: —that Mr. Deachman tell us the better way of doing it?

The CHAIRMAN: You have the floor.

Mr. DEACHMAN: I refuse, on the advice of counsel.

Mr. LANDERYOU: May I ask a question?

Mr. COLDWELL: Yes.

Mr. LANDERYOU: I find myself in accord with the proposition of my friend, that we should issue more money for public works. But I am going to ask him this direct question. If the same amount of money was placed in the hands of the people in the form of a national dividend, would it not have the same effect in increasing your demand for cheese, as you mentioned, and for all those other commodities that you have mentioned that they are now in need of? Would it not have the same effect if they worked on public highways and received wages for that? Would it not have the same effect?

Mr. COLDWELL: I would answer that question in the negative, Mr. Landeryou, and I do it for this reason: If you are going to issue a national dividend—

Mr. CLEAVER: He means the dole.

Mr. COLDWELL: I must answer your question, Mr. Landeryou—you are going to issue it as Mr. Aberhart, I think, said, to millionnaire and pauper alike, to everybody.

Mr. CLEAVER: Yes, a dole to everybody.

Mr. COLDWELL: And, consequently, a great deal of it would not go in at the bottom but at the top.

Mr. LANDERYOU: Let us take this proposition of yours of $100,000,000. Suppose that we spent $100,000,000 to build a highway. I admit that people will have $100,000,000 to buy cheese and other commodities which at the present time they are in need of. But if you were to give that to the same people who would work on the highway—that $100,000,000—in the form of a dividend, would it not have the same claim against things and would not the same purpose be served?

Mr. COLDWELL: But you would have nothing to show for it afterwards.

Mr. LANDERYOU: That is right. I am not questioning that.

Mr. COLDWELL: You would have nothing to show for it afterwards.

Mr. LANDERYOU: But it would have the same effect.

The CHAIRMAN: Order.

Mr. COLDWELL: May I answer Mr. Landeryou to this effect, that in my opinion a national dividend may come one day, but it will only come when

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the nation that tries it or the world is under complete communism. That is the only manner in which you will get a national dividend for all.

Mr. DEACHMAN: There is one thing I should like to say here, because I do not think the record would be complete without it. Mr. Coldwell quite inadvertently, in discussing the question of prices, took the date, I think, of 1926 as 100.

Mr. COLDWELL: Yes.

Mr. DEACHMAN: An then referred to the present prices and said there had been a decline, that there had been deflation since then.

Mr. COLDWELL: Yes.

Mr. DEACHMAN: The bottom of the price level, so far as farm products are concerned, was reached in 1932; and there has been a substantial inflation or upward movement of prices since then.

Mr. COLDWELL: Yes. I did not speak of farm prices. I spoke of the wholesale index.

Mr. DEACHMAN: I have it in regard to the cost of living. The cost of living in 1933 was down to 77.5, and now it is up to 85.

Mr. COLDWELL: Yes, that is quite true, but what I actually did was to take the 1926 figure...

Mr. DEACHMAN: But the inflationary movement had started and had made considerable progress.

Mr. COLDWELL: I took 1926, 1929, the year of the crash, and the year in which we live.

Mr. DEACHMAN: But you are leaving out the intervening period.

Mr. CLEAVER: Before you leave the point in regard to housing would your proposition be that the government should go into the business of building houses?

Mr. COLDWELL: Yes.

Mr. CLEAVER: Do you not think that that in turn would discourage the building trade and as soon as the government programme of building houses was over we would still have the men out of work? Would it not be better to carry on the policy which we are now adopting of stimulating the industry itself which will have a continuity of effort?

Mr. COLDWELL: Within our present system, Mr. Cleaver, if that policy were successful, I would say go ahead with it; but our experience in the last several years, or the last two years, has been that that stimulus has not been sufficient.

Mr. CLEAVER: The figures for the last six months of the year since the new Housing Act has been in force would indicate a remarkable improvement in the house-building industry.

Mr. COLDWELL: Some improvement, but not adequate. I may say this, that where another plan has been tried, the Dominion of New Zealand, we would have to build this year thirty-five thousand new houses to parallel what they did last year in that country. But in New Zealand, side by side with the government program, there has also been a great deal of building by private interests.

Mr. CLEAVER: Unfortunately I have not the New Zealand figures with me.

Mr. COLDWELL: I just have the volume here.

Mr. PLAXTON: Do you suggest that the expenditure of $100,000,000 in the manner you suggest, beyond the realm of experiment, will produce the results you claim would flow?

Mr. COLDWELL: I think it would be a stimulus.

Mr. PLAXTON: Why stop at $100,000,000?

Mr. COLDWELL: It is like a doctor giving a drug; he may give five grams of a drug and do the patient good, but if he gave 500 grams of the drug he would kill the patient.

Mr. PLAXTON: Why pick on $100,000,000?

Mr. COLDWELL: I just said, say, $100,000,000. Or $50,000,000. As a matter of fact, I think Mr. Woodsworth gave Mr. Towers something I am going to refer to shortly, and Mr. Towers probably has a memorandum on it, which deals with an issue of $50,000,000.

Mr. CLEAVER: Have you canvassed the idea that your experience might work better if that $100,000,000 were spent in some way where it would not be in competition with industry?

Mr. COLDWELL: Can you suggest anything?

Mr. CLEAVER: Yes. Mr. McGeer suggested road-building and perhaps power development.

Mr. COLDWELL: I think I said that too. Housing was one of the things I mentioned.

Mr. CLEAVER: Of course, when the government goes into the housing business it is in direct competition with private industry.

Mr. COLDWELL: I know, but if private industry will not go into the housing business sufficiently and our people lack houses, then it seems to me it is quite legitimate for the government to take a hand.

Mr. CLEAVER: Why not stimulate the existing industry rather than put it out of business?

Mr. COLDWELL: That is all right, Mr. Cleaver; I am not quarrelling with that point of view at all.

The CHAIRMAN: Proceed, Mr. Coldwell.

Mr. COLDWELL: The issue of money for public works will, I believe, have some results immediately, and may have many good results within a measurable period of time. Meantime, the results I have indicated can be expected from expending the money to be issued in a public works program. In an expanding economy, public debt, dealing with the retirement of a large volume of debt, is not the most alarming factor in the economic structure. A much more alarming symptom is widespread unemployment and poverty among the farmers and workers.

Mr. LANDERYOU: Is that not because there is an accumulation of wealth?

Mr. COLDWELL: Yes, when in a few hands.

Mr. LANDERYOU: That is represented by debt.

Mr. COLDWELL: Just a moment. If you are going to issue money—I am not discussing that phase at all, but what I am saying is—if you are going to issue money from the government to do certain things, instead of putting it into the stagnant pool at the top pump it into the stream at the bottom.

Again it may be argued that the retirement of millions of dollars worth of bonds for new money would tend to reduce interest rates. That is true, but if, on the other hand, the money were paid out for public works, the money so paid would get into the hands of the banks and would have precisely the same effect but would have already served a still more useful service in having distributed goods to workers and farmers and provided the nation with public works.

Mr. LANDERYOU: I am in favour of doing both, Mr. Coldwell.

Mr. COLDWELL: That is all right. I am trying the argue that as long as you had the right amount—

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The CHAIRMAN: Go ahead with your presentation, Mr. Coldwell.

Mr. COLDWELL: But some will argue that all this would depreciate Canadian currency in terms of foreign exchange, and Canada is an exporter of goods. Such a depreciation might actually benefit the Canadian producer. Recently we have seen a depreciation of the British pound in terms of Canadian dollars. In 1932, and we in the west can never forget this, the pound had fallen to about $3.25 in Canadian money, with disastrous results to the Canadian farmer. A depreciation, therefore, of the dollar in terms of foreign exchange would give the producers of export commodities a larger return for their goods in terms of Canadian currency. That is, providing the depreciation was not too great.

Under our present system the manipulation of the currency results in increasing or decreasing returns to various classes in the community. At the moment, the farmer suffers from low prices, the worker from unemployment, whilst those in receipt of fixed incomes from bonds, mortgages, securities, and so on, are able to obtain more goods for the money they expend. The depreciation of the dollar would tend to take something from the latter group and give it to the former. Again we are faced with the problem of choice. Choose either employment for the unemployed and better prices for the producer or the privileged position of the financier and those who live on securities and more or less fixed incomes from many sources. Eventually improved economic conditions would improve conditions for all the people but until that improvement comes some inflation or even reflation would reduce the returns to some groups in the community.

You cannot get something for nothing although the redistribution of wealth which would result from a large expenditure on public works, financing directly, but effectively, increased consumption to the worker and benefitting the farmer would eventually result in improved conditions for the nation generally.

Mr. LANDERYOU: You agree you cannot get something for nothing? If you are going to redistribute existing wealth you will have to take away from those who have to give to those who have not.

Mr. COLDWELL: Yes, but those who have not at the moment have performed services which entitled them to something more than they have. I am not using that in the sense that is sometimes used.

Mr. Plaxton: How do you explain the present unemployment relief conditions in the United States in light of the vast expenditures?

Mr. COLDWELL: May I just say something about that in a minute? Improved conditions would improve our tax position and enable us to collect more money from those to whom it must eventually flow. If we owned the entire banking system an operation of this type would be easier but we do not own either the chartered banks or any large segment of industry. Hence we must rely on taxation to recover the national issue in order to re-issue national money in the future, if we are going to continue that method. This is something that many people overlook.

In my opinion you cannot keep issuing new national money without receiving a substantial portion of the former issues. The raising of the total national income, however, enables a government to raise revenues by taxation, and that is where I would refer to the United States. For example, in the United States the annual national income was increased by thirty billion dollars between 1932 and 1937, enabling the government to collect more revenue by 4·4 billions a year.

In Canada our circulating media have declined since 1929, I believe.

Mr. TOWERS: No, increased.

Mr. COLDWELL: By how much?

Mr. TOWERS: The deposits, about 16 per cent.

Mr. COLDWELL: Our circulating media, coinage, bills and so on.

Mr. TOWERS: Active circulation?

Mr. COLDWELL: Yes.

Mr. TOWERS: I think that is about the same.

Mr. COLDWELL: I thought there had been a decline.

Mr. TOWERS: I think that that thought of a decline often arose from comparing the total of the dominion note issue before we commenced operations with the total of the note circulating position now; whereas under the old regime, as you know, dominion notes were used as cash reserves by the banks whereas in the main they now use deposits with us.

Mr. COLDWELL: There may be an explanation there. I thought there had been a decline in active circulation, but in any event the experience of the United States has shown that they have at least been able to collect a very substantial increase in the form of taxes.

Mr. PLAXTON: Are you going to deal there with the unemployment situation?

Mr. COLDWELL: Now, in the United States they have unemployment in spite of all they have done. The priming of the pump in the United States, as it is sometimes called, materially reduced unemployment for a time.

Mr. LANDERYOU: Hear, hear.

Mr. COLDWELL: And moreover, it did this, it relieved us of the necessity of doing the same thing, because we benefited from that which they had done in the United States. Included in their unemployment, remember, are the hundreds of thousands of young men who to-day are in their C.C.C. camps, and others who are working on W.P.A. projects. We do not include such persons in our returns. I think it shows this and it rather proves what I said at the beginning, that these ameliorative steps that can be taken do not solve the problem; they only relieve the problem and we have got to go more deeply; but at the moment I am anxious to see something done in this country which will relieve the problem and continue to relieve it while we are progressing to something that will ultimately cure the problem perhaps for us.

Now, we may be told that the present currency is all that we require to carry our present credit requirements; that the issue of about $100,000,000 would increase the reserves of the chartered banks to that extent and enable them to make new loans if they wished of $1,000,000,000 on the basis of ten to one.

That may be true, but if the banks will not lend money now, and I am not critical of that because they must run their business as business institutions within the rules of the game to make a profit, and private enterprise will neither expend its own savings nor borrow them, that is, other people's savings, a government issue for public works is, I think, fully justified.

Now, that is practically all that I wish to say except that I am quite aware of the danger that would be said to lie in the proposal to issue any large amount of money for public works, because it would, it may be said, increase the volume of goods in terms of money, and it would be a form therefore of taxation on large numbers of people, and it would get back again into the hands of those who control the financial system. All these things will be said, I know. I am not arguing that. The question I want to ask Mr. Towers is this: I think Mr. Woodsworth gave him a memorandum.

Mr. TOWERS: I am sorry, I have not got the answer to that now. I did not understand it was needed for today.

Mr. COLDWELL: Then I will refrain from asking these questions today. It would be much easier to get a short memorandum.

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Mr. TOWERS: Yes.

Mr. LANDERYOU: Just on that point about the danger of increasing prices when there is an increase in the volume of money, could not that be overcome by non-monetary action such as the establishment of a price control? Would you be in favour of the establishment of a price control?

Mr. COLDWELL: I am very much in favour of certain forms of price control; but to my mind price control would not meet the situation that might be created by a very heavy inflation. I think the experience of European countries shows that we should endeavour to relate intelligently the amount of purchasing power to the amount of goods; but my contention is that is not done now, and what I propose, is simply increasing the amount of purchasing power more nearly in line with goods. I think you have to exercise some intelligence in that regard.

Mr. JAQUES: How do you propose to issue the fifty million? In the ordinary way?

Mr. COLDWELL: No. I think I made that abundantly clear.

Mr. JAQUES: I am sorry; I did not understand it.

Mr. COLDWELL: I used your own term, Mr. Jaques; debt free money.

Mr. JAQUES: Oh, I see.

Mr. CLEAVER: I wonder if Mr. Coldwell would now be willing to allow me to ask him a few questions as to how he would suggest his proposed system be brought into effect?

The CHAIRMAN: I think Mr. Coldwell would be glad to answer any question.

Mr. COLDWELL: Yes, as long as you have patience, Mr. Chairman.

The CHAIRMAN: I am more than patient; I am extremely interested in your paper.

Mr. CLEAVER: As I understand your proposal, your suggestion is that the state should own all industry and should operate all industry?

Mr. COLDWELL: No; I say this, that in the evolution of society I believe that that will come about.

Mr. CLEAVER: Eventually.

Mr. COLDWELL: Yes, eventually. But I say this, that the state should now own, control and operate those industries that reach the stage of monopoly. Now, that answers the question that was shot at me by someone, but I did not answer it, regarding the land. In this country land is not by any stretch of the imagination a monopoly. It is used by the individual for the sustenance of himself and his family and therefore, is proper for personal or private ownership.

Mr. CLEAVER: Your suggestion, in effect, then, is that only such industries should be socialized as could be more efficiently operated under a socialist system?

Mr. COLDWELL: I would not put it that way. I say more efficiently serve the nation.

Mr. CLEAVER: Are those terms not synonymous?

Mr. COLDWELL: No. An industry might be monopolistic, might be highly efficient as an industry but might not serve the nation, but really exploit the nation.

Mr. TAYLOR: As most of the power companies do.

Mr. COLDWELL: Yes, lots of them do.

Mr. CLEAVER: Then, having reached that conclusion that certain important industries should become socialized, how would you finance them? Would you have a co-operative financing scheme and let the general public hold stock in those industries?

Mr. COLDWELL: No.

Mr. CLEAVER: Or would you finance them by the issue of bonds and debentures?

Mr. COLDWELL: You ask me how we would finance such an industry. Now, you notice I stated that we would regard the socialization of the financial institutions, including the chartered banks, as fundamental to any program.

Mr. CLEAVER: Perhaps I could make my question clearer and get my answer more quickly by giving you an illustration: a municipality decides to build a waterworks plant to distribute water to the residents of the municipality. That plant is owned by the municipality and that plant is financed by issuing debentures of the municipality. Is that the way in which you would propose to do it?

Mr. COLDWELL: You might possibly finance a good deal of your industry in that way—your nationally owned industry in that way at the outset.

Mr. CLEAVER: Your shareholders in the industry would be the people who are patronizing the industry?

Mr. COLDWELL: Of course, the owners of your debentures would be the people in all probability who would be patronizing the industries.

Mr. CLEAVER: Your suggestion is not socialism as I understand it; your suggestion is an extension of our present system.

Mr. COLDWELL: You will notice, Mr. Cleaver, that as far as I am able I seldom use the term "socialism" or "socialist", the reason being that there are so many conceptions of what the term means to-day that you are liable to be quite misunderstood.

Mr. CLEAVER: Quite; and I am asking these questions, Mr. Coldwell, not in criticism but so that we may understand your proposal. Your proposal in the final analysis is simply that we shall extend our already existing practice of public ownership.

Mr. COLDWELL: Quite.

Mr. MCGEER: Of course, there are few countries in the world that have any more public ownership than has Canada to-day.

Mr. COLDWELL: Yes, Canada has gone a long, long way toward the nationalization of its structure, and will go much further. I expect it will be a gradual process.

Mr. CLEAVER: My next question arising out of that is this: what industries do you believe would be proper ones to become publicly owned?

Mr. COLDWELL: One of the first industries, I would say, that might become publicly owned would be the mining industry, on account of the revenue which it would probably give to the state rather than to that feature of monopoly.

Mr. CLEAVER: Can you give any illustration that would convince you that the mines could be more efficiently operated under public ownership than under private ownership? Now, I want you to disabuse your mind entirely of the question of profit, because in my opinion excess profits can be controlled, and it is in the public interest that we should have management of industry that will be most efficient; but I am perfectly frank to admit that what I have seen of public management of industry does not establish in my mind any great confidence as to public management of an industry such as the mining industry.

Mr. COLDWELL: Well, I would answer that in this way: you want me to eliminate the desirability of taking profits?

Mr. CLEAVER: I want you to eliminate the fear of too great profits. I believe that can be controlled in another way—a better way than you suggest.

Mr. COLDWELL: I will do that. I will eliminate that feature altogether. I say that I know of no industry in the promotion of which there is such a

waste of funds that might be used more usefully in society than there is in the mining industry.

Mr. CLEAVER: Does not that arise in the capitalization of the mine rather than in the operation?

Mr. COLDWELL: Certainly; of course.

Mr. CLEAVER: Then, if private ownership can more efficiently manage and operate a mine, and if your problem is simply the problem of the great waste that enters into the capitalization and the detrimental effect of excess profits, would not the obvious thing then be to attack those two branches of the problem rather than to scrap the whole thing?

Mr. COLDWELL: Well, the argument is a logical argument; but on the other hand the mining industry is one which takes out of the country, out of the land, something which can never be put back. It is unlike farming in that respect.

Mr. CLEAVER: I agree with that.

Mr. COLDWELL: And I think this, that the state is entitled to all that comes out of that particular resource.

Mr. CLEAVER: Quite, but you are speaking of mines; do you think that the government could manage and operate the Lake Shore mine more efficiently than it is being operated now under private control?

Mr. COLDWELL: You ask me if I think the government can do it. My answer would be in the negative, as a government.

Mr. CLEAVER: Do you think a municipality could do it?

Mr. COLDWELL: Just a minute; I do not think for one moment that the government as a government can do anything in these things. You understand, I am not urging that. But what I am saying is this, that the owners of the mines don't operate those mines as a rule, they hire highly efficient technicians to manage and operate those mines; that those technicians and those brains are available to the people of Canada, and I believe that they would work just as well in fact I am of the opinion that the public servant as a rule works just a little better in the interests of the nation than he does in an insecure position in a private corporation.

Mr. CLEAVER: Can you give us any illustration of where that has been done; other than the illustration which you gave us of the Ontario Hydro Electric Power Commission with which we are all familiar; and we realize that the success of the Hydro Electric is not as the result of public ownership but because of the outstanding ability and the autocracy of one or two individuals.

Mr. COLDWELL: That may be so. You ask me if I can give examples of this sort of thing. Well now, I hesitate because of the fear of being misunderstood to mention what has been done in Russia or what has been done in Germany.

Mr. CLEAVER: I was referring to Canadian examples.

Mr. COLDWELL: —or what has been done in Italy.

The CHAIRMAN: Take Russia, we are all conversant with that.

Mr. COLDWELL: With Russia?

The CHAIRMAN: Yes, go ahead with Russia.

Mr. COLDWELL: Well, there you have a country which at the close of the great war was entirely delapidated—in every sense of the implications of the word delapidated—with a population that was probably at the lowest rank of literacy in the world.

The CHAIRMAN: You are speaking now of mines?

Mr. COLDWELL: I was just going to say this.

The CHAIRMAN: Yes?

Mr. COLDWELL: In the course of 20 years they have built up an economy—I don't know how efficient it is—but at least they are producing to-day under a public owned system which they have. I am not in agreement with the basis of their philosophy at all, but that system has been able to provide a vast quantity of new goods as well as factories and so on. Now, the chairman says we were speaking of mines. He is quite right. In the mining areas in the Don basin, for example, before the war vast quantities of coal were then being mined, but the condition of the people who worked in those mines simply beggars description. Colonel Mackay will tell you that. And to-day those miners are decently housed, and decently fed, and are producing per unit man several times the quantity of coal they produced under private ownership before the great war.

Mr. LANDERYOU: Is that development postulated on the issue of quantities of credit?

Mr. COLDWELL: Of course, they issued credit against the goods they were producing as they produced them.

Mr. LANDERYOU: If you were going to socialize mass production here—

Mr. COLDWELL: It is very difficult to talk about a country you have not visited.

Mr. LANDERYOU: It would not be done by forcibly taking away the property from individuals, it would be done by buying them.

Mr. COLDWELL: Obviously.

Mr. LANDERYOU: Where are you—where is the Dominion government going to secure the money to socialize the means of production of the country?

Mr. COLDWELL: Well, I think that is very obvious. Remember, that I said this, you could issue tokens against goods that you owned. If you exchange tokens for goods that somebody else owns, and you own—that is, afterwards—you have the goods from the productive enterprise to retire, if you like to call it such, the loan that you make against the industry.

Mr. LANDERYOU: You suggest the issue of money for the purchase of industry should be limited to $50,000,000 or $100,000,000?

Mr. COLDWELL: You don't mean to say, Mr. Landeryou, that you actually think that any government would say to organizations, we will say, that had hundreds of millions of dollars invested to-day, we are going to give you these hundreds of millions of dollars all at once. I do not think so. I think you would do it over a measurable peroid of time.

Mr. LANDERYOU: As you do that you will be piling up debts in the form of national debts, you will be piling up national debt instead of private debt, and you would still have that debt burden to carry.

Mr. COLDWELL: You would not have that debt burden to carry on as you have been carrying the debt to-day which is unproductive, you would have something productive with which to retire that debt.

Mr. CLEAVER: You would not issue your tokens on a declared basis—

Mr. COLDWELL: It would be against goods.

Mr. LANDERYOU: That is the point I wanted to establish.

Mr. COLDWELL: You did not establish that point.

Mr. LANDERYOU: I wanted to indicate to you the point that you would pile up your national debt.

Mr. COLDWELL: No, no, I do not think so.

Mr. LANDERYOU: If you are going to purchase the means of production you are going to have to issue money.

Mr. COLDWELL: Again, you see, if you have an industry you don't have to pile up a national debt as you are using the term national debt.

[Mr. M. J. W. Coldwell, M.P.]

Mr. LANDERYOU: We have socialized the C.N.R., that is a national institution; is that the method you would use to socialize industries in Canada? You would use a different method. I should like to have you explain that.

The CHAIRMAN: Gentlemen, it is six o'clock. Shall we meet to-morrow morning?

Some hon. MEMBERS: To-morrow morning.

Mr. TOWERS: Before you adjourn may I say that I have here answers to two questions by Mr. Deachman and one by Mr. Tucker that carried over from the meeting before last. Would it be your wish, Mr. Deachmand, that these should be read now and put on the record or do you wish that they be carried forward?

Mr. McGEER: Could we not have them put on the record and have them conveniently before us? Could we not have them printed?

Mr. DEACHMAN: I should like to have them read to-morrow morning.

The CHAIRMAN: Mr. Deachman would like to have them read.

Mr. DEACHMAN: I prefer that.

Mr. McGEER: I just wish to say this—

The CHAIRMAN: To-morrow morning Mr. Howard goes on.

Mr. McGEER: If we are going to broaden the scope of the inquiry into the question of whether or not the socialist system or the capitalist system is wrong, we are going into a very lengthy matter. There are some matters dealing with the Bank of Canada which some of us had hoped we might deal with. It does seem to me that the inquiry this afternoon, while it is very interesting, has gone far beyond the scope of this reference. I do not wish to object to that kind of thing, but we are here to deal with the Bank of Canada operating in Canada on its present basis, and to find, as I understand it, some methods, if there are any available to us, of improving the present situation in Canada. I do not know whether this committee wishes to adjourn to go to Russia or not; but it seems to me, if we are going to have any real information upon some of the issues that have been discussed here this afternoon, that is the inevitable implication. In the meantime, I am going to suggest we go on with the Bank of Canada inquiry.

The CHAIRMAN: We will adjourn now until to-morrow morning when Mr. Howard has the floor.

The committee adjourned at 6.02 p.m., to meet again on Thursday, May 11, at 11 a.m.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 17

THURSDAY, MAY 11, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

Thursday, May 11, 1939.

The Standing Committee on Banking and Commerce met at 11.15 o'clock a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Cleaver, Coldwell, Deachman, Dubuc, Fontaine, Hill, Howard, Kinley, Landeryou, Lawson, Leduc, Macdonald (*Brantford City*), McGeer, Moore, Plaxton, Quelch, Ross (*St. Paul's*), Stevens, Taylor (*Nanaimo*), Woodsworth.—22.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Examination of Mr. Towers was continued.

Mr. Towers filed several statements appearing as appendices to this day's evidence, as follows:—

Appendix "A"—Answers to questions by Mr. Woodsworth on the effects of the Government borrowing $50,000,000 from the Bank of Canada at 1/20 per cent per annum, to use for public works.

Appendix "B"—Answer to question by Mr. Landeryou:—Net repatriation of Canadian Government bonds, 1927-1937.

Appendix "C"—Answer to question by Mr. Deachman:—Reducing rates of taxation rather than increasing expenditures.

Appendix "D"—Answer to question by Mr. Deachman:—Should Canada use the available surplus in the balance of payments to increase imports rather than repatriate debt.

Appendix "E"—Answer to question by Mr. Tucker:—The effects of imposing a tax of 1/12 per cent per month on savings deposits.

At 1 o'clock the Committee adjourned until Monday, May 15th, at 11.15 o'clock a.m., with the understanding that Mr. Clark would then complete his examination of Mr. Towers and be followed by Messrs. Taylor, Kinley and Cleaver.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons

Room 277, May 11, 1939.

The Standing Committee on Banking and Commerce met at 11 o'clock. The chairman, Mr. W. H. Moore, presided.

In attendance: Graham Ford Towers, Governor of the Bank of Canada.

The Chairman: Order, please. I will ask Mr. Howard to come forward and make his statement.

Mr. Howard: Mr. Chairman, I would like, before putting my questions to the Governor of the Bank of Canada to make a short statement. I am going to put my questions more from the standpoint of his ability as a financial expert than to ask him any questions that might lead to matters of government policy or as to the management of the Bank of Canada. I think we all agree that money is only a receipt for services or goods and does not mean national wealth; is that right, Mr. Towers?

Mr. Towers: Yes, I agree with that.

Mr. Howard: Yesterday in listening to Mr. Coldwell I was quite surprised at his questions on the profit system. It seems to me from my observations that the only real objections to our profit system as we have it to-day come when there are not any profits; when there are profits everybody seems to be satisfied.

Now, another question I wanted to touch on in connection with Mr. Coldwell's remarks was this: the maintenance of private property, I claim, usually bids for efficiency. He stated that even with government management or government ownership or the socialistic system, that we would still have efficiency. I cannot, for the life of me, figure that out in any way, shape or form. I am not going to give you more than one example which covers the profit end of it as well as the efficiency end of it. I would direct your attention to the time of the last war when private industry stepped into the breach to manufacture shells. In many cases, the manufacturers of those shells refused to take on any contracts; they would not have anything to do with the manufacture of shells because they were against participation in war, and it was only after the national board insisted that those fellows were not doing their duty that they induced many of those manufacturers to engage in the manufacture of shells. Now, what happened? They fixed a price. They handed out the shell making on a fixed price basis. As soon as the contracts were given the people who took the contracts immediately started in to make the shells, got deliveries as fast as possible—as fast as they were calling for them—and put in new machinery. Everybody was working to increase the efficiency and so on. Now, take on one size of shells: the first contracts called for the machining and finishing and so forth of the shells at $6.60 apiece. During two and one-half years the last contracts were let out at $1.10 per shell for exactly the same work, and I will say that possibly the profit element—the percentage of profit was higher at the lower price than it was at the first price. I do not care how you figure it out, there were two factors to my mind that made for that efficiency. One was the profit factor—not from a patriotic standpoint but purely from a profit factor, and efficiency reduced the price down and down. I do not see how anybody could take those figures or could establish a profit basis because on each set of contracts the board lowered the price each time down to the basic price. I do not believe that if that same business had been handled under government manufacture that you would have seen that drop from the original contract price.

Mr. McGEER: There is the same thing in handling the post office, to take a concrete example. There is no service in the world where costs have been so constantly reduced under government management as in the service under penny postage, and there is no greater efficiency and no wider service given. It is purely under government management.

Mr. HOWARD: Yes, but that is not in the manufacturing game; that is a different proposition. I can quote you another management under government ownership that does not come close to the Post Office Department.

Mr. COLDWELL: Is it not a fact that under the complete contract system in Great Britain it was not until the munition board was set up under Mr. Lloyd George that some measure of efficiency and co-ordination occurred during the war?

Mr. HOWARD: Sure, but the profit element came into the picture and they reduced the prices and kept on making a profit. The minute you put that on any other basis than a profit basis you eliminate efficiency immediately.

Mr. COLDWELL: That is an opinion.

Hon. M. STEVENS: Are we going to get the expert opinion of Mr. Towers on that?

Mr. HOWARD: I have no objection. Do you want to ask him?

Hon. Mr. STEVENS: Oh, no.

By Mr. Howard:

Q. Mr. Towers, I will ask you two or three questions in connection with the money situation, because, it has been suggested in several instances that we were short of money. Since the Bank of Canada came into existence, how much new money has been put into circulation?—A. Including in that term the amount of bank deposits, or rather speaking of deposits alone, the increase in Canadian deposits has been from $2,034,000,000 as at March 31, 1935, to $2,498,000,000 at December 31, 1938. If I may add to those figures, the figures of note circulation,—not for exactly the same date which I do not happen to have here—that total has gone from $157,000,000 in December, 1934, to $207,000,000 in December, 1938. That is the active circulation of notes in the hands of the public.

Q. In other words, that is an increase of notes in the hands of the public of about $50,000,000?—A. Yes.

Q. And the deposits have increased by the difference mentioned?—A. Yes.

Q. I claim that we have under our present banking system plenty of machinery to create all the money that could possibly be required in Canada.—A. That is the case.

Q. As to the velocity of money, which was discussed a couple of days ago, I have here a tabulation which I should like to put into the record. It will only take up one page:

[Mr. Graham Ford Towers.]

CHARTERED BANKS OF CANADA

—	Deposits by the public payable on demand in Canada	Deposits by the public payable after notice or on a fixed day in Canada	Current loans and discounts in Canada not otherwise included estimated loss provided for	Bank Clearings
	$	$	$	$
1936				
January 31	576,299,739	1,498,797,270	756,418,932	1,551,155,045
February 29	533,784,608	1,517,261,281	741,591,724	1,461,938,711
March 31	568,918,406	1,532,157,747	732,657,582	1,389,908,584
April 30	621,827,383	1,536,100,556	725,484,153	1,434,904,772
May 30	578,298,032	1,526,915,696	699,774,131	1,674,833,322
June 30	621,702,828	1,504,792,542	657,429,289	1,627,319,610
July 31	618,608,437	1,493,973,647	649,772,815	1,560,946,336
August 31	626,323,498	1,502,821,895	657,362,195	1,456,361,476
September 30	647,739,862	1,500,864,504	687,836,073	1,710,895,147
October 31	664,281,664	1,510,319,426	707,850,681	1,836,562,563
November 30	679,975,818	1,546,776,305	692,647,974	1,735,144,137
December 31	682,326,453	1,547,822,474	675,451,831	1,762,072,773
1937				
January 30	644,267,905	1,548,604,580	687,349,679	1,626,403,364
February 27	655,514,404	1,563,829,859	691,687,139	1,352,286,537
March 31	710,848,542	1,583,780,912	694,215,664	1,631,393,849
April 30	731,961,610	1,583,327,255	710,442,224	1,719,712,734
May 31	699,566,400	1,573,466,165	727,880,132	1,597,480,966
June 30	713,177,394	1,569,815,485	728,290,407	1,547,821,398
July 31	666,767,428	1,572,154,385	734,888,808	1,510,001,371
August 31	686,448,383	1,577,638,802	747,670,894	1,421,206,629
September 30	713,627,549	1,574,503,186	770,684,341	1,530,594,430
October 30	679,125,141	1,583,694,718	769,731,884	1,641,113,815
November 30	695,342,882	1,570,213,802	768,263,684	1,618,954,675
December 31	699,186,909	1,582,825,511	748,817,290	1,653,414,830
1938				
January 31	639,653,053	1,590,927,550	731,456,128	1,358,053,794
February 28	634,068,054	1,614,569,798	737,103,210	1,168,765,665
March 31	647,968,335	1,623,399,562	752,456,794	1,320,041,908
April 30	687,101,740	1,630,544,534	769,729,815	1,360,269,458
May 31	669,938,337	1,625,497,864	769,128,651	1,423,764,308
June 30	689,941,578	1,620,819,977	785,974,554	1,486,260,480
July 30	671,165,468	1,622,606,061	786,366,739	1,358,399,533
August 31	687,159,311	1,634,654,979	781,010,385	1,352,863,433
September 30	725,046,724	1,632,585,066	828,903,218	1,515,434,868
October 31	749,356,786	1,655,782,101	848,217,597	1,672,225,072
November 30	750,328,026	1,654,748,586	836,927,428	1,661,720,515
December 31	734,103,116	1,659,646,208	806,466,362	1,586,511,086
January 31, 1939	699,772,326	1,667,403,289	791,847,317	

It gives for 1936, 1937, 1938 and the month of January, 1939, the deposits by the public payable on demand in Canada; the deposits by the public payable after notice or on a fixed day in Canada; current loans and discounts in Canada, and the main thing showing the velocity of money in Canada which is a report of bank clearings each month.

To my surprise, in January, 1938, the clearings were $1,358,053,794 for the month. I shall not read all the others. The figure for December of 1938 was $1,586,511,086. During the 12 months of 1938 the money going through the clearing, which shows the velocity of money in circulation, amounted to $17,264,310,120. The velocity has remained practically steady during 1936, 1937 and 1938. Taking the basic figure for January, 1936, it was a little higher in January, 1937, a little lower in January, 1938, and, I imagine, if you have the figures for January of this year, which I have not got, they would probably be a little higher.

Now, Mr. Towers, does the increase of deposits affect in any way the velocity going through the clearings or, in other words, is the velocity going through the clearings controlled by the business in the country?—A. It is con-

trolled by the business in the country, undoubtedly. If the possession of a larger volume of deposits by the public does act as an encouragement for them to spend or invest that larger amount of money then one would expect the turnover to increase. If circumstances are such that the increased amount of money is in part idle in the hands of its owners, then, of course, the expansion in the deposits will have no effect on the turnover.

Q. A good deal has been said during the last few days in the committee about the introduction of the Bank of Canada Act, whereby the government agreed to supply credit in terms of public need. Do you not think that since the operation of the Bank of Canada that promise is being fulfilled every day?—A. I really would have to have the phrase defined more carefully. I would say that to the extent that the phrase means an ample and flexible supply of the medium of exchange for the conduct of business transactions and that need for an ample and flexible supply is a public need, it is being filled in Canada to-day.

By Mr. McGeer:

Q. That depends on the type of investment made. If it is for the liquidation of existing debts and the accumulation of new currency goes into credit repositories then you will not get that velocity that is needed to stimulate new business.—A. I was referring, of course, to the need for medium of exchange. If what we need are possibilities for investment, possibilities for activity of various kinds, then that is a need distinct from the need for a medium of exchange in which those transactions may be conducted.

Q. For instance, if the money goes to meet overdue bank claims, mortgages, bonds and the liquidation of debts and not into new enterprise, then the construction industry, which is our serious industry in Canada to-day, would still remain idle.—A. I do not think the question of the payment of debts arises because that is a movement from one hand to another.

Q. But it may go into credit repositories already overloaded?—A. I do not quite follow that, Mr. McGeer.

Q. For instance, your savings bank accounts have been accumulating all the time?—A. Yes.

Q. We have not been able to make any new investments, and whether that be from taxation or debt overload, or from a variety of other causes, the fact remains that in Canada we have increased the volume of medium of exchange in issue and in the possession of the public, as is indicated by our bank deposits, but we have not got action on the circulation which adds to the going concern and expansion of the general activity.—A. We certainly have not got that action in a volume which one could call satisfactory.

By Mr. Howard:

Q. Several statements have been made that we could change the price levels by the issuing of more money, or that the withdrawal of money from circulation would change the price level. I want to give three concrete examples and to ask your opinion on the situation. The first one is this: In 1929 when the crash came many of the people who were friends of mine happened to be in the lumber business. I know one gentleman who had twenty million feet of lumber and he had paid for stumpage, paid for the cost of manufacturing, paid for the driving, the sawing and the stacking of it in the yard, and his costs were $25 per thousand for his lumber stacked up in the yard without any profit for himself. The crash came and within six months the price of lumber went to $12.50. If you take $12.50 on twenty million feet you will find it represents a loss of $250,000, which would probably more than equal his bank loan for the production of the lumber. Now, would there be any way, by manipulation of the money market, to save that situation from happening.—A. Not a situation as extreme as you mention. If one visualizes a case where the demand

[Mr. Graham Ford Towers.]

for lumber had not been reduced, or not materially, where the people who were buying lumber were unaffected by any change in their circumstances and could afford to pay as much and use as much as they had before, and if in the midst of that situation you injected a sudden and completely unnecessary liquidation of certain stocks, then I assume you could have an unwarranted but temporary decrease in the price. But of course the situation I have described is an imaginary one which I think never exists. In fact, you usually find that the situation which you mention is caused by an oversupply in relation to demand, a demand which is probably declining; and you find a situation in respect to buyers where they can less well afford to pay the existing prices and where, therefore, someone is going to come into the market and sell at lower prices, whether or not he is forced to do so by reason of any bank loan commitments.

Q. Yes, but you do not quite answer the question. That crisis came in 1929. I was taking one industry but I am considering the four basic industries, agriculture, mining, lumbering and fishing.—A. May I finish the point you brought up?

Q. Yes.—A. To the extent that such liquidation of stocks was dictated not by purely business reasons, business judgment, the business appraisal of the market situation in that commodity, to the extent that it was not based on such things but based on a tightness in the position of an individual bank, then monetary action would relieve that pressure. But if it was based only on the business judgment of the banks, monetary action would not change the situation.

Q. That is exactly what I claim. I wanted to know if there was anything that could be done to avert a similar situation to what occurred in 1929. Exactly the same things happened in connection with agricultural prices. The prices of agricultural products went down.—A. Of course, to the extent that one of the troubles was the building up of an over extended situation prior to 1929, then monetary action in those earlier years might have meant that the situation would not have been so over-extended and consequently the need for liquidation would have been less.

Q. Provided, Mr. Towers, that the expert of the Bank of Canada was 100% more far-sighted in his judgment than all of the other local banks in the country were at that time?—A. Fortunately not quite as bad as that.

Q. Pretty nearly, because they did not know anything more about it than we did.—A. I do not think that in those years, certainly from the middle of 1928 on, there was considerable worry being expressed about the growth of speculation, about over-extension here and there. In fact, public references were made to that kind of thing. Well, if that situation is developing, a central bank can do more about it than any individual bank. The various individual banks might each have said, "We think the situation is getting out of hand," but might not have had any effective way of dealing with it.

Q. I agree with you.—A. So that the very fact of a central bank's existence can sometimes enable things to be done even if its intelligence is no greater than that of the individual banks.

Mr. Jaques: Mr. Chairman, may I observe that this seems to be a case of curing the disease by killing the patient.

Mr. Towers: Well, perhaps, to use one of those analogies, might it not be the case that the patient was allowed to have only one or two drinks to stimulate him instead of the whole keg?

Mr. Jaques: Mr. Chairman, if he is not dead, he is a permanent invalid.

Mr. Towers: I should think he would be happier with a constant small supply from the keg.

Mr. Jaques: I should think he would be happier on his feet and being active, not an invalid or a cripple as he is to-day as a result of that treatment.

The Chairman: Was it not his own fault?

Mr. JAQUES: No. You cannot blame individuals for that.

The CHAIRMAN: Relative over-production; I think that is the point.

Mr. JAQUES: As I said the other day, our system of finance contains the seed of its own destruction and these occasions arise when matters have to be dealt with in a drastic manner and it results in the permanent sickness of the patient.

By Mr. Howard:

Q. Mr. Towers, let me ask you this. I have given you an example of what happened in the lumber business. The consequence of that occurrence in the lumber business was that the commercial banks soured on lumber accounts all over the country. It was a perfectly natural consequence that when you look at the sheets they find they are making profits in one and losing in the other and they are leery of the one in which they are losing. Furthermore, there has not been any great money made in the lumber business since that time, and that is one of the fundamental businesses of this country.

Mr. KINLEY: Was it not rather a fact that everything was freezing up and they had to liquidate where they could?

Mr. HOWARD: Just exactly the same situation as existed in the fish business, also the agricultural industry; there was no difference. I am taking that one because I am familiar with it.

By Mr. Howard:

Q. Mr. Towers, what control have you through the central bank to-day over the merchant banks?—A. In respect to the loans which they make or do not make?

Q. Well, no; could anyone control that?—A. No.

Q. Your answer would be "No" naturally; you cannot tell anybody who is running a business whether they should lend to a man or not.—A. That is right.

Q. But have you any way, or do you advise them, or do they consult with you in connection with conditions and what could be done at the present time?—A. With specific reference, shall we say, to their own loaning and investment business?

Q. Yes.—A. We maintain periodical contact with the banks. We see all the general managers at least twice a year. We made that suggestion, as a matter of fact, that we should meet twice a year, and that is being done. In the interval it may be that some of them are occasionally in Ottawa or that some of us are occasionally in Montreal and Toronto. We try to keep in touch with what is going on in the banking world in that manner. I am free to admit that the contact has not been a constant one by any means due to the geographical situation. We try to visit Montreal and Toronto periodically, as well as other places in the country, but our numbers are few and the necessity of staying here a good portion of the time does restrict the amount of time in which one can get around and see people and find out what is going on.

Q. And the Banking and Commerce committee does not give you any more time?—A. Oh, well, that is a worth-while activity. But I hope that as time goes on we will be able to do more. The amount of ground to be covered, however, and the physical limitations involved are a handicap. In other places in the world, of course, you may find that the central bank and the other banks, as well as the other major elements of the financial system and of industry, are largely concentrated in one place. London is an example.

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By Mr. Kinley:

Q. I suppose the financial strength of the Canadian banks is a factor in their not depending too much on you?—A. Yes, I would say so.

Q. They do not need to re-discount?—A. No.

Q. Their financial strength makes them strong enough to stand alone?—A. That is right.

By Mr. Howard:

Q. Mr. Towers, may I make this statement and ask your opinion. One of the reasons why we cannot exchange Mr. Landeryou's coal for apples, and all that kind of thing, is that the relativity of the price level is wrong. Let me illustrate what I mean before you answer. When the crash came in 1929, we will say the rate of interest was about 5 per cent, the general rate, taking all things into consideration. The price of labour was 35 cents per hour. The price of pork was about 10 cents a pound. The crash came. Due to the long period of that situation and other situations in the market the interest rate not only remained at 5 per cent but actually went up to $5\frac{1}{2}$ per cent. As a matter of fact, labour went to 15 cents an hour or no labour at all. The price of pork went to $2\frac{3}{4}$ cents a pound. Those represent to me the three outstanding things.

If the price of money had immediately dropped proportionately to the others, would the position of prosperity—general prosperity I am speaking of—have been changed?—A. If the drop in the level of interest rates had taken place earlier than it did, I think that would have had perhaps not a major beneficial effect, but a slightly beneficial effect in respect to the things which you mention; although I do not think that it would have affected the disparities between the price levels of various groups of commodities in the country. It might, however, have somewhat reduced the burden under which certain of our affected people were suffering.

By Mr. Landeryou:

Q. You mean if debt adjustment acts had been passed?—A. Mr. Howard, I think, was talking about the general interest rate structure of the country rather than the forced adjustment of debts which are a matter of compromise rather than freedom of choice.

Q. Reduction of interest is an impossibility without debt adjustment legislation. Nobody comes in, apparently, and reduces their income by taking a voluntary cut in their interest. Very seldom has that ever been done. A. I think, of course, you will find that the adjustment of interest rates has been very substantial in the cases of those people who can refund maturities or refund their private obligations or renew them when they come to the close of the term. Interest rate adjustments which require an alteration of contracts come into another category.

Q. The Province of Alberta was unable to do that very thing, and the municipalities were unable to do it. If they were allowed to do that it would have helped. The province of Alberta and other provinces were unable to do that.—A. Is is the case that you will find the people whose credit standing had disappeared were unable to take advantage of that general lowering of rates.

Mr. Kinley: The province of Alberta has great potential wealth, greater than any other in Canada, and more real wealth.

By Mr. Howard:

Q. The point I am getting at is this: do you believe that the relativity of prices has more to do with the general prosperity of the country than in fact any other single factor?—A. Yes, I do.

Q. Take the case of producing coal at a certain price, you get your costs fixed at a certain price. Now, if the interest rates, the price of coal, the price of

lumber and the price of agricultural products, are proportionate to their—I was going to say their earning power, but I will say distribution power, then you can exchange goods; but if you put the whole load on agriculture and others too high, naturally agriculture is going to be in a depression.—A. I agree the disparities between agriculture and other products in the country are the major cause of the trouble. On page 87 of the record there is a table showing the indices of farm products prices in Canada, of export goods and import goods. These show that in 1937 the disparities, so far as they are shown by the index which covers a number of commodities in each case, had largely disappeared. It must be said, of course, that if they disappeared in the case of certain commodities because of drought, that is not a very beneficial way of remedying the situation. Since 1937 the disparities have increased again somewhat and I agree it is a major source of trouble.

Mr. LANDERYOU: Just one question on that. This disequilibrium in the price structure as between the products of industry and agricultural products has always existed.

Mr. HOWARD: No, not in 1925 to 1929.

Mr. LANDERYOU: There may have been a period when there was not such a great disequilibrium, but generally speaking, the world over it has existed. Why did they have a protected industry in Canada?

Mr. HOWARD: You are on another tack.

Mr. LANDERYOU: That is another factor.

Mr. HOWARD: You want me to answer?

The CHAIRMAN: Stick to your point.

Mr. HOWARD: Mr. Chairman says that I should stick to my point.

By Mr. Howard:

Q. Mr. Towers, let us take it this way: as we are dealing in agricultural products, lumbering products, mining products, on what I call a short term basis, is it not always dangerous in the bond market to deal on long term bonds? What I am getting at is this. I have a suggestion which came to my mind after the crash in 1929. Since that I have seen it in two or three articles, so I am not taking authority for it. Let us take government bonds issued on a 3 per cent basis, for instance, with the understanding that if the index price went above a certain level you would pay $\frac{1}{2}$ of 1 per cent more interest on your government bonds, or if it went below a certain price, then you would decrease your interest by $\frac{1}{2}$ of 1 per cent, and not fix a term of bonds non-callable for a long period of years which, when other prices fluctuate stay at the same price and throw out the equilibrium either on the one side or the other side. Could it be done?—A. I doubt whether it is practical, Mr. Howard, although that thought naturally has occurred to people. To establish what you might call a flexible arrangement in respect to interest rates on outstanding obligations one would need, of course, to carry it all through the picture. For example, when an insurance company sold a life policy for $20,000 it would depend on investing its money over a period of years at a certain return. If, because of changes in the price level, it found that its return was changed, then it would have to have power to make the necessary adjustment with the policyholder either by scaling down the amount of the policy or increasing the premium, which he has to pay, or vice versa, as the case may be, and so with every aspect of our life. No one would be able to know whether they were going to have any certain commitment to give or to receive.

Q. Now, take the same answer and apply it to Mr. Coldwell's suggestion as to the socialist state. Take fire insurance companies. Fire insurance companies were originally formed exactly on a socialist basis; that is to say, a

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group of people were taken and insured. Each one of them took out a policy in a company with the agreement if they had no fires they would pay only enough to pay the operating expenses.

Mr. LANDERYOU: They do not operate that way now, though.

Mr. HOWARD: Just a minute. That went on for quite a few years in different parts of Canada. There were lots of them in my own province, the province of Quebec. Then the time came when they had one fire and they assessed this one and this one and this one to cover their losses. That was all right; the fellows did not like it because instead of paying so much that year, they had to pay twice the amount, but anyway they stood it. Then, what happened? A whole lot of fires took place in one year. The fellows refused to pay and they went to the courts and everything else, and now the system has become unpopular and you have gradually gone into what I call the capitalist system whereby they charge you a rate that you know you are going to pay. There is no change in it, and at the end of the time it does not make any difference if all the risks burn up or any part or anything else; you know exactly what you are going to pay and you know exactly what you are going to get, and the other companies have gradually gone out of business. That is a change from socialism to capitalism, I would call it, instead of going from capitalism to socialism.

Mr. COLDWELL: Yes, but I have a very good answer for that, Mr. Howard.

Mr. HOWARD: Then, there was another point I wanted to bring to the attention of the committee in connection with fixing of prices of any commodity.

By Mr. Howard:

Q. Why is it, Mr. Towers, in your opinion, that the lumbering industry, the fishing industry and the agricultural industry are depressed to-day and the mining industry is exceedingly prosperous?—A. A question of demand and prices.

Q. There is a market for anything that they mine in connection with gold, silver, lead, zinc and so forth, but you have not got a market for wheat because you are oversupplying this market and not getting the export market?

Mr. JAQUES: Why is there a market?

By Mr. Howard:

Q. Let me give you another example that to my mind is an extraordinary thing. Take the delivery of fluid milk, for instance. I know something about this business. In the delivery of the fluid milk the dealers that take in the milk from the farmers and distribute it to the doors of all cities in Canada, are not making any money on that distribution of milk.

Mr. CLEAVER: Who says they are not?

Mr. HOWARD: I am telling you; I know.

Mr. KINLEY: They are getting the most of it.

Mr. HOWARD: They are making plenty of money on all by-products but not on the actual delivery of milk.

Mr. COLDWELL: Why so, Mr. Howard?

Mr. HOWARD: That is what I want to get at, and compare it with the wheat business. The reason is that the price is fixed that they pay the farmer.

Mr. COLDWELL: Three cents a quart.

Mr. HOWARD: Whatever it is. In our town it is \$2.25 a 100 lbs., and the summer rate is \$1.75. That is fixed. Now, listen to this. When we deliver milk to the consumer and take care of the customary and constant breakage, collections and everything else, if we increase the price 1 cent per quart consumption drops by 3 to 5 per cent.

Mr. LANDERYOU: Hear, hear.

Mr. HOWARD: We might as well face the picture. The minute you drop the price to the consumer for his quart of milk up goes your consumption.

Mr. LANDERYOU: That affects many other things too.

Mr. HOWARD: But it does not affect wheat in the same way. Wheat is in a different category. While it is an agricultural commodity it is not affected by that same condition.

Mr. KINLEY: Why not?

Mr. HOWARD: I cannot tell you why.

Mr. KINLEY: We have a lot of fishermen who are buying flour at $4—

Mr. TOWERS: Partly, of course, because the potential consumers of our wheat are not allowed to receive the benefits of lower prices.

Mr. COLDWELL: That is right.

Mr. CLEAVER: I want to speak to the milk illustration, because I would not like a statement of that kind to go on the record of this committee without, at least, a question being raised about it. I entirely disagree with what Mr. Howard said about that. From the information I have it is hardly correct. Mr. Howard, is it not a fact that at the present time the farmer receives less than 50 per cent on the retail price of milk?

Mr. HOWARD: Less that what?

Mr. CLEAVER: Fifty per cent of the retail selling price for milk.

Mr. HOWARD: No, I should think right around 50 to 60 per cent.

Mr. CLEAVER: Do you suggest that the firm which simply pasteurizes, bottles and delivers the milk should receive more than 50 per cent of the total cost of the delivery of that milk to the consumer?

Mr. HOWARD: You are talking of a different subject altogether. It does not make any difference to me what you put the spread in at, I am saying the company does not make any money on the delivering of fluid milk—none of them in Canada—that is the statement.

The CHAIRMAN: Mr. Howard is talking of the flexibility of prices.

Mr. HOWARD: But if you increase the price of milk 1 cent a quart to the consumer above a certain price—if you get it at, say, 12 cents a quart in the city of Sherbrooke and if you increase it to 13 cents, your consumption goes down 5 per cent.

Mr. CLEAVER: As one representing a rural constituency I do not want a statement of that kind to go on the record of this committee unchallenged. My information is that in certain countries in this world the farmers receive 75 per cent of the retail selling price of milk, and my information also is that millions of dollars have been made in this country through buying up opposition and putting opposition out of business in connection with the distribution of milk.

Mr. HOWARD: Now you are talking on another basis.

The CHAIRMAN: Let us proceed with Mr. Howard's point. Mr. Cleaver, you have registered your objection.

Mr. CLEAVER: I do not want this statement to go on the record without challenge.

Mr. COLDWELL: In what countries do the producers get 75 per cent?

Mr. CLEAVER: You will find it in Mr. Arkell's report in a speech delivered by him in a recent Montreal conference. I know in my own little community what the Borden people are doing to our dairies, and I know it is a fact that dairy routes are for sale in places in Ontario at fabulous sums simply because there is great excess profit in the distribution of milk as it now stands.

The CHAIRMAN: Could you answer Mr. Coldwell's question? In what countries do they get 75 per cent?

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Mr. COLDWELL: Yes. I agree with Mr. Cleaver that there is too big a spread, but there is too much competition.

The CHAIRMAN: Proceed, Mr. Howard.

Mr. LANDERYOU: The significant point is that a raise in the price decreases the consumption.

The CHAIRMAN: It is a matter of the relation of price to demand.

Mr. HOWARD: There is another question I would like to ask Mr. Towers.

By Mr. Howard:

Q. As I said, my own idea is that our banking system is sufficient to supply any needs that we want to use at the present time—that is the mechanics of it; now, how can you eliminate the human factor in the question and how can you remedy or do a lot of things that I would like to do? For instance, let us take the bank reports of this last year. Each one of our banks—and I do not say this critically—seems to take a pride in showing their percentage of liquid position, while I would think that the real thing they would try to show would be the service they have been able to render to the community. Now, is there any object under the present set-up of maintaining a high liquid position of the banks?—A. Not as high as it is now. By liquid position you are referring to the proportion of government securities, to the total?

Q. Yes.—A. The banks feel that that is too high; they would like to see it lowered.

Mr. KINLEY: The fact that it is there shows that the country does not need the money, and they have to put it somewhere else.

Mr. TOWERS: Yes.

Mr. HOWARD: I am not so sure about it.

Mr. LANDERYOU: Mr. Howard says he is not so sure about that.

The CHAIRMAN: May I say, Mr. Landeryou, that we want Mr. Howard to proceed as rapidly as he can and as consecutively as he can with his investigation. Now, if Mr. Howard consents to interruption why I have nothing further to say about it.

Mr. LANDERYOU: I want to ask him a question. If he does not want to permit the question it is all right.

Mr. HOWARD: It is quite all right.

Mr. KINLEY: Don't break the continuity of his remarks.

Mr. LANDERYOU: I would like to ask him a question along the line he is following.

By Mr. Howard:

Q. From the standpoint of the financial expert only I could go back in my mind to three, four or five men who built up the community of Sherbrooke. Every one of those fellows was possibly without a dollar, and they got their start by making a small loan from the local bank at that time. In other words, the loans were made on the record and the moral standing of the men whom the bank helped, and those people have gone into the different industries and built up the town more than any other single person. Is it not a fact, Mr. Towers, that to-day we are basing our loans too much on the question of collateral security and not enough on the real thing—the moral standing of the borrower? —A. You were saying that in the earlier days to which you refer that those individuals were able to get bank accommodation largely on their record. That is, the appraisal of their ability and of their moral standing?

Q. Yes.—A. There was one further factor which entered into the mind of the banks at that time, and that was the assumption of an expanding country and continuing prosperity. It might have been interrupted at times, but it was

not interrupted to an etxent which really impaired faith in the future. Our banks no doubt said: Here are people who are live wires and very capable; the circumstances are such that people with that capacity will be able to succeed and we will take a chance on their success. If general conditions inspire the belief that most people, even the able ones, are going to have a very difficult time, then you will find a difference in the willingness of the banks to take those chances.

Q. But, Mr. Towers, to me that is entirely a mistaken attitude. I will ask you this question: would you not rather start in Canada to-day looking to the future, than to have started in Canada fifty years ago looking to the future?

Mr. KINLEY: That is quite a question.

Mr. TOWERS: That is a difficult question to answer.

By Mr. Howard:

Q. I am one of those fellows who believe that there never was a time in world history when we had as many changes and advantages ahead of us, because now we are beginning to disclose the future of this country and fifty years ago it was not nearly so much disclosed as it is to-day.—A. The character of the effort would, I suppose, have to be a little different. In a pioneer country going ahead, such as Canada was at that time, there were many gold mines to be tapped—and I do not mean that in the sense of the metal—it was a bonanza period.

Mr. JAQUES: There was no debt.

Mr. TAYLOR: I might say in reply to Mr. Howard that in the earlier days in this country everybody knew what they had to do in order to make a living, whereas to-day they do not know. This is an expert's country; conditions to-day are expert conditions. Unless you have been trained to the opportunities that lie in front of you it is difficult for the ordinary individual to take advantage.

Mr. JAQUES: As a pioneer in those days, we were contracting debts and in these days we are trying to pay them off.

By Mr. Kinley:

Q. Do you not think, Mr. Towers, that the shyness of the banks—that is, they are gun shy, perhaps, on moral records—is due to an atmosphere that has been created in modern days by countries not paying their bills and people getting the idea that it is not dishonourable not to pay their bills, and therefore you must protect yourself by having security?—A. That is a factor, yes.

By Mr. Landeryou:

Q. Is not this also a factor, that they know they cannot pay their debts even if they want to?—A. No.

Q. I would like to know how we can pay Canada's national debt. I have never had it explained, and nobody can explain it.—A. I will explain it in a few words.

Mr. HOWARD: I would like to ask Mr. Landeryou to do two things—to read some of the speeches of Abraham Lincoln in his time and to read some of the speeches of William Gladstone in his time and to go back to the time of Caesar, and I think he will find that exactly the same conditions obtained. If you closed your eyes you would think you were reading just what is happening to-day, and those conditions have pertained for 2,000 years. What I claim is this, that the people of this country have created, as Mr. Kinley says, a lack of confidence—that all over the world, even in England, they retarded to pay their debts temporarily, and many other countries are refusing to pay. The minute you do a thing like that you immediately place in the minds of the

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people the idea that if countries are going to repudiate their debts then the individual does not have to pay his debt either, and you spoil the whole situation.

Mr. LANDERYOU: Abraham Lincoln recognized the principle in his day and suggested an alternative scheme of financing the needs of his country.

Mr. HOWARD: They did not choose it. But if you will read the record of that time you will find that thousands of unemployed persons in the city of New York were breaking the windows in all the stores. They decided the country was going to the devil at that time, and in order to complete the picture in the light of what has happened since that time why should we be discouraged and worried about to-day when we have the machinery and the system, and with the human element as it is we can make things go ahead.

Mr. KINLEY: I heard that well described the other day by the term moral rearmament.

Mr. LANDERYOU: They need more money.

By Mr. Howard:

Q. Let me ask this question of Mr. Towers: if a person goes into a bank and puts down $20,000 of bonds and gets a loan of $20,000, you do not consider that is any loan, do you?—A. I certainly do not consider it is a risky loan if the bonds are first-class.

Q. I want a better answer than that. Is it not a fact that that is not a loan at all? Instead of selling his bonds he goes into the bank and puts them up against the money he gets, and that is not any loan.—A. Presumably he prefers to borrow rather than sell the bonds. He has certain reasons for that. I say in those circumstances it was a useful facility for him.

By Mr. Kinley:

Q. Can the bank use that collateral security for the purpose of stimulating their reserves with the Bank of Canada?—A. No.

Q. Is it counted as a reserve for the bank while it is in their possession?—A. No.

Q. Not if it is hypothecated?—A. No.

By Mr. Howard:

Q. Would not this be a good suggestion: that we have shown in the statement the loans that are covered by collateral and the loans made as real loans without security except on the moral standing of the borrower, and the other ones are loans which I take to be the stock market loans, etc.; would not that be a good idea from the statistical point of view?—A. I do not think it would tell any story that would lead to any conclusion, no.

Mr. PLAXTON: I think you would have very few loans made against just an excellent character.

Mr. KINLEY: They take two now as endorsers.

By Mr. Howard:

Q. Take your banks and the original charter of all your banks; those banks were formed with the idea of supplying the necessary funds to finance industry throughout the country and for the development of the country.—A. Industry, agriculture, individuals; yes.

Q. The whole thing.—A. Yes.

Q. I think they have done a pretty good job at that, but I want to say a word in connection with Mr. Jaques' example the other day when he suggested that a bank loaned the money to put up a $10,000 industrial plant. That

would be true under our banking system and rightly so provided they knew that at a certain point they would re-finance and sell the stock and endeavour to pay back their loan, which he said they did.

Mr. JAQUES: Yes.

Mr. HOWARD: Then you said they set up a depreciation for—

Mr. JAQUES: Replacement.

Mr. HOWARD: Yes. At the end of the period when the depreciation value equalled $10,000, they would put during the time, those accumulated reserves either in government bonds or in preferred stocks in some other industry. Their reserves would help to finance at the end of the time. The point you did not go far enough with was: supposing they closed out at the end of the time; their reserves would pay back the capital to the shareholders who had put their money into the concern; you would have the slate washed off.

Mr. JAQUES: May I say one word. I did not have time to plumb the matter to the bottom, but we must remember this, that when money leaves the bank before it reaches the consumer's pocket it generates, as we say, a trend of cost. Now, the money which has been paid out in the construction of the factory has generated a trend of costs, and it is taken back in the form of savings to reimburse the bank. That is perfectly honest. We understand the bank cannot loan money for years. But when that factory starts producing it has to include in the prices of its products a sum of money to replace the factory; in other words, the people are required to pay for the factory twice but they have only had one lot of money to do it. Now, you may say the money which formed the reserve is used for further production; that may be so; but that one lot of money is now going out to the public, to the consumer, and generates another lot of costs. One lot of money cannot repay two lots of costs. It is what we call the double circuit, and it is the crux of the whole matter. It is a bookkeeping system. For the life of me I cannot understand the resistance there is to the idea, because everybody, including the banks, would be better off; even Mr. Towers would not be so worried.

Mr. TOWERS: I think the trouble lies in Mr. Jaques' thought that everything is paid in money. He forgets that the activities of our lives are in exchange of goods and services. I think I could talk for an hour and not say any more than that.

Mr. JAQUES: May I mention Mr. Stevens' illustration the other day when he said that the woman who bought a cow borrowed money from the bank to buy the cow and the question was how she could find the interest, and Mr. Stevens said that she milked the cow and the milk paid the interest. Now, the cow did not produce money any more than the bank produced milk.

Mr. PLAXTON: It produces goods.

Mr. JAQUES: You do not pay interest with real wealth; you pay it with money. Now, the cow does not produce any money and the bank does not produce any milk.

The CHAIRMAN: Mr. Jaques you are forgetting that the milk must not only pay the interest but it must pay for the calf. You produce another cow.

Mr. JAQUES: If the cow produced a golden calf that would be true.

Mr. HOWARD: Mr. Jaques, there is no answering for people's taste. For instance, let us suppose that the social credit group or a socialist group came to Sherbrooke to conduct a lecture and they priced the tickets at 50 cents, you would probably get a few people to attend, and if you reduced the price to 25 cents you would get a few more people to attend, but if Joe Louis came to Sherbrooke for a fight the people would pay $10 a seat and they would be glad to go. Therefore, you cannot count on taste.

Mr. KINLEY: With regard to depreciation, do you not think that the allowance for depreciation in the financial structure to-day is quite liberal?

Mr. HOWARD: Very.

Mr. KINLEY: Considering that most firms, out of operating, keep their buildings in repair, and when you are dealing with costs, with modern structures, the scale of depreciation allowed is quite liberal.

Mr. HOWARD: Surely.

By Mr. Howard:

Q. Now, Mr. Towers, you know something about the systems in other countries. This strikes me as a peculiar situation. We are finding fault with our present financial institutions in Canada—there is a lot of criticism about them—but nobody has yet shown us a better way, and as far as I am concerned I am always looking for new ways to do things better; but is it not a fact that when Russia cleaned off their slate and decided to start anew they started exactly with some of the arguments we have been brought up on; they based their unit on a unit of labour and they started to operate entirely on the socialistic basis or communistic basis, and today they are practically back to the same system we are in as far as their financial system is concerned. They are producing gold for their international balance settlements, they are basing their purchases on efficiency and production, they have done away with all that silly right of wages to everyone and they pay on the merit system according to the amount produced. In a word, outside of having representative government, which is a question for discussion in the minds of some people—their system in a general way is practically the representative standard financial system.—A. Their financial system right from the start has been exactly the same as it would have been in a capitalistic country, allowing for the major difference that the government own all the means of production and various other things as well. The banks in the Soviet union gave credit to various of the industries in accordance, naturally, with the instructions of the central planning bureau. Sometimes those loans were good and sometimes they were bad. If they were bad the country as a whole took whatever loss was involved. I think that the things which determine whether or not loans shall be granted in many, though naturally not all cases going to be the same things which determine action in a country such as this. In other words, the planning bureau's estimate of the needs and probable success of the particular industry concerned.

By Mr. Landeryou:

Q. Is not there a major difference in that the government determines what work should be carried out and the banks have to provide the funds for carrying out those works?—A. Yes, but the government is the banks and the government is industry.

Q. It is determined by the government. The government instructs the banks. It is determined by the government to provide the funds?—A. Yes.

By Mr. Kinley:

Q. It is a partnership in Russia; it is not a political bank in Russia?—A. No.

Q. It is controlled by an independent board?—A. Well, it is all in the hands of the government. I will say this, that as time goes along the decisions of the government as to whether they will or will not instruct their banking department to place credits at the disposal of a particular industry are going to be guided by the same thought which you would find in a capitalistic country. In other words, is the industry going to be efficient? Is it worth while? That will not, of course, entirely be the case; there will, undoubtedly, be cases where they say, "we want this to be done and we do not care whether it is profitable or not." In that case they will supply the funds, perhaps, from other than their commercial banking agencies and charge it up to taxation.

Q. They have not reached that period yet; they are still on the system of the government determining what shall or shall not be done.—A. All I am saying is that the things which guide the government in determining the extension of credit are more and more those things which would guide individuals in a capitalistic country.

Mr. COLDWELL: Except that the question they ask is: Does this meet a definite social need, whereas our people say: Will this produce a profit?

Mr. TOWERS: Yes, that is true, with this added qualification: does it meet a definite social need; and they have also come to the point because of experience, where they also say: can we afford it?

Mr. COLDWELL: Yes.

Mr. TOWERS: In the earlier stage I think that question: can we afford it, was not so prominent.

Mr. COLDWELL: The difference is: can we afford it, as against, does it produce a reasonable profit?

Mr. TOWERS: Yes; and the final one would be: under the system as they operate it, is it possible to have a larger sum total of production for the people of the country than would be the case under some other system.

Mr. COLDWELL: Yes.

Mr. HOWARD: Let me give you one more example of profits. Take, for example, the manufacture of silk stockings. Take one plant, without mentioning any names, which started in Sherbrooke twelve years ago and to-day is employing 760 hands. It has not been slack throughout the depression; it has maintained employment. The first pairs of stockings that they put out sold in the retail stores throughout Canada at $2 a pair; to-day the price is 79 cents. But not to be extreme, we will take it on the same quality and the same standard, $1, or a reduction in price from $2 to $1 to the consumer.

Mr. KINLEY: They still have the $2.

Mr. HOWARD: Yes, I know. The same quality is at $1 now on the basis of trade; the $2 price was based on an American stocking imported into Canada with the duty paid and laid down here selling at $3. So they started by underselling the American price by $1, $2, and to-day the price is 79 cents a pair in the retail stores. The profits factor has decreased over one-third—the percentage of profit factor has decreased over one-third, labour has increased over 40 per cent.

Mr. CLEAVER: You referred to the general profit decrease or a profit per pair of stockings.

Mr. HOWARD: A percentage profit. I am not talking about totals; that depends on the number of employees. If a factory had 1,500 employees they would make more.

Mr. KINLEY: That is the answer to your question.

Mr. HOWARD: How can you establish any profit factor? Suppose they had gone on making $2, they would not sell any stockings.

Mr. CLEAVER: I suggest they are making thousands of dollars more profit at a lower price.

Mr. HOWARD: Total prices are a different thing. I want to make this point: they have reduced the price from $2 to 79 cents and they have increased their labour, the number of employees by over one-third, and they are taking one-third less profit on a dozen pairs of stockings.

Mr. CLEAVER: And they are making more.

Mr. HOWARD: That is under the private system. I doubt if you could do that under any government system.

Mr. COLDWELL: You are eliminating that total profit altogether.

[Mr. Graham Ford Towers.]

Mr. HOWARD: In one case you may be employing ten hands and in the other case you may be employing 10 hands.

Mr. KINLEY: If the profit was not there you would not make it, because they would be lazy.

By Mr. Howard:

Q. Suppose we admit that this country needs good roads, a lot of good roads, and that the development of the tourist trade that Mr. McGeer was speaking about would create increased revenue in Canada, possibly enough to make the roads self-liquidating. Suppose we decided on the policy of going ahead and spending money on roads, how would you proceed to finance that?—A. The answer to that is found in the experience of many years, of course. I would say in these circumstances the government could borrow for the construction of the roads, and, of course, has borrowed for the construction of roads.

Q. Now, I have no other question, Mr. Chairman, except that I have tried to show that I approve of the present financial set-up and the present banking system, but I am always ready if anybody can show me how we can improve general conditions to accept it. But I still am absolutely convinced in my own mind that the relation of one commodity to another is of very great importance, and when we throw them out of line, that is the real basis of our troubles.

The CHAIRMAN: Now, I would suggest that after we have heard from Mr. Clark, that Mr. Taylor be given the floor. I think we should give Mr. Taylor the floor.

Mr. CLARK: I should like to ask Mr. Towers in the first place if he would say the private banks have any exclusive rights to receive deposits?

Mr. TOWERS: No, they have not. As a matter of fact, the question was raised at an earlier meeting as to the amount of deposits taken by other institutions in Canada, and one of the things I have here to-day to put on the record, with the committee's permission, is a statement showing the amount of deposits in other institutions as of December, 1937.

Mr. CLEAVER: Are you putting it on now?

Mr. TOWERS: May I put it on now, Mr. Chairman?

The CHAIRMAN: Yes.

SAVINGS INSTITUTIONS

DEPOSITS

(Millions of Dollars)

—	Calendar Years-ends[1]											
	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
DOMINION POSTAL SAVINGS..........	[2]49·4	[2]38·7	28·4	26·1	24·8	23·9	23·9	23·2	22·5	22·0	21·9	22·6
PROVINCIAL INSTITUTIONS—												
Ontario Savings Office............	18·4	18·8	19·8	22·8	23·3	26·9	23·7	21·5	21·4	32·0	37·7	40·3
Manitoba Savings Office..........	15·3	15·6	15·4	15·0	14·7	12·4	*	*	*	*	*	*
Alberta Savings Certificates[3].....	01·1	11·8	11·6	11·8	11·0	9·2	7·6	5·7	5·6	4·8	4·5	4·1
SAVINGS BANKS—												
Montreal City & District........	56·2	57·7	58·2	55·1	55·4	55·7	54·3	52·9	52·7	54·6	57·8	61·6
La Caisse d'Economie............	13·0	13·6	12·7	12·5	12·7	12·5	13·2	12·9	13·0	13·0	13·6	13·6
CAISSES POPULAIRES................	6·3	7·9	8·1	8·1	7·8	7·4	6·2	5·6	6·1	6·9	7·7	13·1
LOAN COMPANIES..................	32·3	37·6	40·0	37·7	39·7	38·4	36·9	31·8	32·6	33·5	33·4	33·8
TRUST COMPANIES[4]................	17·2	22·2	27·9	31·4	35·5	38·4	41·1	44·7	45·1	47·1	49·2	50·3
TOTAL.................	209·2	223·9	222·1	220·5	224·9	224·8	206·9	198·3	199·0	213·9	225·8	239·4

[1]Figures are for respective fiscal year-ends of institutions and are shown under nearest calendar year-ends.
[2]Includes Dominion Government Savings Bank figures.
[3]Demand deposits only.
[4]Only companies incorporated in Ontario; not available for other companies whose deposits would be a relatively small amount.
*Transferred to chartered banks in 1932.

Mr. Coldwell: For our information, what are the totals?

Mr. Towers: The total was $239,000,000.

Mr. Plaxton: Representing what?

Mr. Towers: Dominion postal savings, $22,000,000; provincial institutions, Ontario $40,000,000, Manitoba savings office, none, Alberta savings certificates, $4,000,000; Montreal city and district banks, $61,000,000; La Caisse d'Economie, $13,00,000; Caisses Populaires, $13,000,000; loan companies, $34,000,000; trust companies, $50,000,000.

By Mr. Landeryou:

Q. Alberta savings certificates are not considered as a deposit?—A. Yes, but they are ones which, of course, cannot be withdrawn at the present time; but they still are regarded by the depositors as a deposit.

Q. That does not include the amount of money in the treasury branch?—A. Excuse me; Mr. Scott points out the Alberta figures include demand deposits only.

Q. It does not include the deposits in the treasury branch in Alberta, does it?—A. No.

Q. New treasury branches?—A. Not included in these figures. All these figures refer to December, 1937.

By Mr. Clark:

Q. The capital stock of the banks is widely distributed, is it not?—A. Yes, it is.

Q. Many people have bank deposits?—A. Yes.

Q. And it is of great importance to them to have confidence in the banks?—A. There is no question of that.

Q. And it is important, too, that the banks retain the confidence of the people?—A. Yes.

Q. It has been suggested and stated in the house that the banks are practically criminals because they do not keep the deposits, that they have not enough money to pay out the deposits that they have. Is there any justification for that idea?—A. No, because banking from the time that banking commenced has never been conducted on the basis of the banks having 100 per cent in legal tender against their deposits.

Q. That may apply to a private concern also? As a matter of fact, I do receive deposits and pay out more than the banks do. As long as I am able to pay and do pay the deposits, I am not a criminal?—A. That is correct.

Mr. Landeryou: What would happen if you were caught short; would you be in the same position as the banks?

Mr. Clark: That would not happen unless the banks went down too.

Mr. Landeryou: You say you do that. Suppose you were caught short, what would happen?

Mr. Kinley: It would come out of his personal resources, his house, his property.

Mr. Clark: Yes, they would have the same claim as they would have against the banks.

Mr. Kinley: It is because they have confidence in you that they allow you to do that.

Mr. Clark: That is the way business is conducted. What I wish to point out is that it is important to the banks to retain the confidence of the people and have the banks promote and maintain private enterprise.

Mr. Landeryou: I should like to get at that same illustration. You say, Mr. Clark, you have deposits and you use the people's money?

[Mr. Graham Ford Towers.]

Mr. CLARK: The same as the banks.

Mr. KINLEY: Are you a trust company or do you do it privately?

Mr. CLARK: I do it privately in my own business.

Mr. LANDERYOU: I cannot understand how you do that.

Mr. LEDUC: He is a private banker, that is all.

Mr. JAQUES: May I point out the difference between a private individual and a bank is this: the bank, as Mr. Towers would say, creates—loans money by creating the means of payment. If I loaned you $500, I have to loan you $500 that I got from somebody else. The bank really does not loan money, it loans promises to pay money.

Mr. KINLEY: Credit.

Mr. JAQUES: And consequently if all the people demand their deposits in cash they could not get them. The people of Canada are not going to be so foolish as to want all their money at once.

Mr. CLARK: No.

Mr. JAQUES: They are not refraining from borrowing money because they are afraid of a run on the banks at all.

Mr. KINLEY: Indirectly he does that.

Mr. TOWERS: If I may interject there, you create credit when you buy something from the corner grocery on credit.

Mr. JAQUES: Very little. It is like a railway ticket. A railway ticket is a claim on so many miles of travel. The bank ticket is a claim on anything that is produced, either goods or services.

Mr. CLARK: Yes. The deposits with individuals and with concerns at the present time amount to a very considerable sum, I presume, throughout Canada, and if our banking system did not have the confidence of the people, the people could not borrow from their neighbours, for instance, because now they have credit with the banks and can borrow money from individuals because they have credit with the bank.

The CHAIRMAN: Proceed.

Mr. LANDERYOU: May I put this the way that Professor Fisher of Yale University put it in his address on a radio broadcast?

The CHAIRMAN: I suggest, Mr. Landeryou—

Mr. LANDERYOU: Every time I go to make a statement you interrupt me. I do not think that is right. I asked him personally whether he was prepared to do that, and you interrupted. I do not think that is fair. I have been interrupted every time I got up to speak in this chamber. I absolutely resent it.

The CHAIRMAN: Mr. Landeryou, you were given the opportunity to open this inquiry.

Mr. LANDERYOU: I beg your pardon, I have not been given the opportunity. I have been interrupted in this chamber.

The CHAIRMAN: The record will show, Mr. Landeryou. We are very anxious to have Mr. Clark proceed. Mr. Clark is open to questions, if he cares to answer them, but at the same time I think it is the view that all people who wish to be heard—

Mr. LANDERYOU: Mr. Chairman,—

The CHAIRMAN: Will you please sit down and listen to me for a moment? In view of all the questions that the different members desire to ask and have asked, for the opportunity of investigating, I think that Mr. Clark should be allowed to proceed with his investigation or his inquiries. Now, then, later on you will be given an opportunity to put the statement on the record, but I doubt if it should be done at the present time.

Mr. LANDERYOU: I asked him, and if he had objected I would have sat down, but I resent everybody interrupting. They interrupted Mr. Jaques when he was giving his statement. He was interrupted by everybody and was questioned by everybody at one time, which prevented him from making his statement—

The CHAIRMAN: If you read the record you will notice over and over again I stated that I objected to the interruptions, and that I was trying to protect Mr. Jaques so that he could continue, and I even suggested that I was trying to protect him from Mr. Landeryou.

Mr. LANDERYOU: I will ask you this question: did I not ask Mr. Clark's permission—

The CHAIRMAN: I think you did, but I suggest—

Mr. KINLEY: It was not a question. There is a difference between a question and reading part of a thesis, as it were, which may be altogether different from the general tone of the article, and putting Mr. Clark on the spot at the moment by reading something by some American professor who writes an article of this kind. I think a question should be a real and frank question.

The CHAIRMAN: That is my opinion. Proceed, Mr. Clark.

Mr. CLARK: Mr. Chairman, I should like to ask Mr. Towers a question with respect to—

Mr. CLEAVER: I think we ought to clarify this a little. I do not want any member of this committee to feel he is being imposed on, because I know you want to be manifestly fair and tried to be fair. I think Mr. Landeryou has misunderstood your ruling. I take it that your ruling is that any member of this committee can, with the consent of the witness, ask any personal question that he wishes to ask, but he cannot use that opportunity to put somebody else's propaganda on the record. Now, if Mr. Landeryou has a question of his own to ask I take it he is quite in order to ask it so long as Mr. Clark is willing—

The CHAIRMAN: Quite.

Mr. COLDWELL: I was going to say that I did not object to questions yesterday. I do not think it is wise or fair to the individual who is giving a point of view to keep interrupting, because it does throw you off the point from time to time.

Mr. CLARK: Yes.

Mr. KINLEY: Mr. Clark is very clear, and I think he is doing well.

Mr. CLARK: What I desire to point out is that I cannot agree with the Social Credit and C.C.F. testimony that has been given here, because from my experience I believe that the government is not justified in going into business; that it is more economical to have it undertaken and carried through, possibly at some times with the help of the govenment, by private enterprise, and that it is highly important that the business of the country should be carried on by private concerns.

Mr. JAQUES: We agree with that entirely; Social Credit agrees with that entirely.

Mr. CLARK: Agrees with that?

Mr. JAQUES: Yes, entirely; socialists don't, but social crediters do.

Mr. CLARK: That is fine. The chartered banks, it is pointed out, have a very important part in the financial affairs of our country, and it is of great importance that they retain the confidence of the people of Canada. It surely is a tribute to the soundness of our banking system that no failures of our banks occurred during the recent severe depression.

[Mr. Graham Ford Towers.]

Mr. JAQUES: The people failed.

Mr. CLARK: There were a great many failures of banks in the United States at the time. The banks were sustained and carried on because they were cleverly managed and handled. They made a small profit, not a large profit, during the depression; and I think it is unfair to have statements made that have been made before this committee and in the house that the banks during the depression made extraordinary profits. A statement was made, for instance, in the first place, that they were sort of criminals because of what they were doing.

Mr. COLDWELL: Who made that statement?

Mr. LANDERYOU: Who made that statement?

Mr. CLARK: Mr. McGeer made that statement on June 2, 1936 in the house. This is what he says:

> I do not know of anybody else who can do that kind of thing without going to the penitentiary.

Mr. JAQUES: That is right.

Mr. LANDERYOU: That is true.

Mr. CLARK: And he goes on to say in regard to the banks that in 1934 the banks made an actual profit of $18,000,000. Have you information there, Mr. Towers, to show us what the figure was in 1934? I am speaking of the net profit.

Mr. TOWERS: We shall have them in just a minute.

Mr. JAQUES: That is their disclosed profit; they have immense hidden reserves that nobody knows anything about.

Mr. CLARK: No, that was on capital investment of $144,000,000. What I should like to point out, and I should like to ask Mr. Towers is: Are not the reserves of the banks practically capital also? It is furnished as capital, is it not?

Mr. TOWERS: Yes. At least, as their statements show, there is a certain capital and certain reserve fund. Some of that fund has come from profits, the balance of it has come from premium on the capital stock which they sold and is in essence capital. The division of these two I have not at the moment here.

Mr. KINLEY: They all came from profits.

Mr. CLARK: No.

Mr. TOWERS: No; I think the majority of it came from the price at which they sold their capital stock.

Mr. KINLEY: It depends on profits.

Mr. CLARK: No, it is not profit.

Mr. TOWERS: The price which they can secure for their stock—

Mr. KINLEY: Depends upon their structure and their earning power.

Mr. TOWERS: That is true; nevertheless, it remains the case that the rest fund is only partly composed of transfers from profits.

Mr. KINLEY: I think that is all right, but it is profit.

Mr. CLARK: No, it is not profit; a reserve fund is not profit.

Mr. KINLEY: What can you build it up from?

Mr. CLARK: I will give you an illustration. The Bank of Montreal issued new capital stock at $200, $100 of which issue was furnished by the stock.

Mr. KINLEY: Why were the people willing to buy and pay $200 for it? Because it was worth it?

Mr. CLARK: Because of the existing earned profit.

Mr. KINLEY: And because of the reserve fund which justified—

Mr. CLARK: They furnished $100 for each share and that was capital.

Mr. KINLEY: You have to build up a reserve fund from profits.

Mr. CLARK: No, that was capital.

Mr. KINLEY: What else—

Mr. CLEAVER: In the first instance, yes.

Mr. HILL: I think you will find reserves are all undivided profits. If you take into consideration the capital invested in their real estate which should come out of the amount paid in on the stock, you will find the net reserve is all put there from undivided profits.

Mr. TOWERS: You mean premium on capital stock should have been used for premises?

Mr. HILL: Absolutely.

Mr. TOWERS: I cannot quite follow the argument of relating one to the other.

Mr. KINLEY: Suppose I have a share in a company and the stock is worth $200. Why is it worth $200?

Mr. CLEAVER: Because of existing profits.

Mr. KINLEY: Because it will earn 10 per cent, therefore the man says it is a 5 per cent investment and I will pay $200 for it.

Mr. CLARK: The amount you put in has not been earned.

Mr. TAYLOR: What you paid for your investment has not been earned from profits.

Mr. CLARK: It is a fact, as the records of the banks show.

The CHAIRMAN: Mr. Clark, Mr. Taylor has a question.

Mr. TAYLOR: I should like to interrupt here, but I do not like to do it. I do it only because I do not want to lose this point. Mr. Towers says that the rest or reserve fund is not all undivided profits, that some of it is premium on the shares sold; but I know of case after case in my life history where banks have never sold shares at a premium in order to add to their reserve fund. In that case the money is taken directly out of the profit made each year and added to reserves.

Mr. TOWERS: In such cases, yes.

Mr. TAYLOR: It is only within the last 20 years that we have heard the word "rest" fund. Before that it was reserve or profits undivided.

Mr. KINLEY: Suppose the bank profits went down 50 per cent next year; when you took up your morning paper, what would be the price of bank stocks in the paper?

Mr. TOWERS: I cannot tell you.

Mr. KINLEY: But you know they would be down, you know that.

Mr. TOWERS: Yes.

Mr. KINLEY: It all relates to profits.

Mr. COLDWELL: Can we get an answer to Mr. Clark's question?

Mr. TOWERS: In 1933—there won't have been very much change since then—the amount of reserve funds which represented cash premiums on stock issues was $67,000,000. The amount set aside from profit was $54,000,000, and the amount added in connection with purchases of assets of other banks was $40,-000,000, a total of $161,000,000, I think.

Mr. CLEAVER: I have just one question. In that connection, do you know at what amount bank properties are carried in their statements as assets?

Mr. TOWERS: In general I would say they are carried at cost, less the amount which they have set aside for depreciaton from year to year.

Mr. CLEAVER: What is the amount of the annual precentage of depreciaton?

Mr. Towers: That I cannot tell you.

Mr. Coldwell: Mr. Towers, what about the rate of profits that Mr. Clark was criticizing?

Mr. Towers: The amount of profits? In 1934, $18,000,000.

Mr. Coldwell: What is the percentage?

Mr. Clark: Taxes are not taken from that.

Mr. Landeryou: Is that after reserves—

Mr. Towers: After reserves for bad debts?

Mr. Landeryou: Yes.

Mr. Towers: Yes.

Mr. Landeryou: And depreciation and all others—

Mr. Towers: Whether these figures I have here are after depreciation of bank premises or not I do not know.

Mr. Clark: I think some taxes are included in that.

Mr. Kinley: Is that after income tax payments?

Mr. Towers: These figures are shown after deducting dominion and provincial government taxes.

Mr. Kinley: Fifteen per cent income tax on that, is there not?

Mr. Towers: This $18,000,000 is shown after taking—

Mr. Coldwell: What was the rate of profit, what per cent?

Mr. Towers: On capital?

Mr. Coldwell: Yes.

Mr. Towers: The capital and reserves at that time—

Mr. Coldwell: Capital without reserves.

Mr. Cleaver: And reserves.

Mr. Towers: Their money which is included in the business—

Mr. Cleaver: You get an answer to your question, Mr. Coldwell, and I should like an answer to mine.

Mr. Clark: I may say that in 1934 the capital stood at $144,500,000 and the reserves at $132,000,000. The reserve was reduced from the time you stated there.

Mr. Towers: Yes.

Mr. Clark: There has been an actual reduction in serves.

Mr. Cleaver: Through losses?

Mr. Coldwell: What was the rate of it, the interest rate?

Mr. Towers: It is being worked out.

Mr. Clark: So that the profit was not anything like 12 per cent at that time on the actual capital; it was, in fact, about 4½ per cent.

Mr. Cleaver: Shall we wait and let Mr. Towers answer?

The Chairman: Let Mr. Clark finish his sentence.

Mr. Clark: Then it is stated that the larger banks, referring to the Bank of Montreal, pay 8 per cent. It was also stated that the other banks range from 6 to 12 per cent, but the average stood at about 12 per cent. It is hard to understand that. Do you understand that, Mr. Towers?

Mr. Towers: Excuse me.

Mr. Clark: Do you understand the statement that other banks ranged from 6 to 12 per cent but the average stood at about 12 per cent?

Mr. Towers: No, I do not.

Mr. Coldwell: Who made that statement?

Mr. Cleaver: Mr. McGeer.

Mr. Coldwell: Now I wonder if Mr. Towers has an answer to the question I asked. The first question was the percentage of profit on capital plus reserves, and the second question, percentage of profit on capital only.

Mr. Towers: In the latter case between 12 and 13 per cent as we work it out here. In the former case, that is, on capital and reserves, between 6 and 7 per cent.

By Mr. Cleaver:

Q. Have you the percentage of profit on capital plus the part of reserves that was contributed by increased selling price of stocks? I take it that would be about 9 per cent.—A. We will try to get that figure in a minute. Incidentally, I should point out that not having been prepared, I am taking figures as they are available in various forms, and I should say that probably that profit figure of $18,000,000 which I mentioned might be affected in this way: undoubtedly there are certain deductions, although just at the moment I cannot tell you what they are. I mean, probably pension fund and possibly for depreciation and so forth.

Q. Before we leave the question of bank premises I have one more question to ask. Can you tell me what percentage of bank premises has been written down to $1 as a result of this actual depression, written off, and are now carried on the bank books simply at a nominal figure?—A. You mean individual buildings?

Q. Yes, individual property.—A. Oh, that I do not know.

Q. Can you give us an estimate? you are familiar with that.—A. No, I have not the faintest idea. The sum total of the premises of the various banks is pretty substantial. Now, whether an individual branch here or there has been written down to $1, I do not know.

Mr. Coldwell: You have a lot of such cases, I imagine, in western Canada, where many bank premises have been abandoned and boarded up.

Mr. Towers: Yes, those which are abandoned, I dare say.

By Mr. Cleaver:

Q. If the material is not available to answer the question which I have asked, would you have this information? Would you tell me what percentage of the present assessed value is being carried on the banks statements?—A. No, I have not the vaguest idea.

Mr. Clark: Mr. McGeer made a statement, speaking about the 12 per cent, that they had set aside as rest accounts an amount almost as great. I think, as a fact, there has been no increase in the rest accounts of the banks for years. It has been reduced, on the whole.

Mr. Towers: On the whole it has been reduced as compared with ten years ago.

Mr. Clark: It has only been a trifling amount, in any case.

Mr. Towers: The figure of the 1930 rest fund was $162.2 millions; the figure at the end of 1938 was $133.8 millions.

Mr. Clarks It has been reduced, so that that statement is absolutely incorrect.

Mr. Cleaver: And the reduction would be accounted for through losses on loans.

Mr. Towers: That may be so in certain years. They may have used some of their rest funds to provide for losses, yes.

[Mr. Graham Ford Towers.]

By Mr. Taylor:

Q. I wish to ask if the capital has been increased in the same period?—A. No; the capital has remained the same. In 1930 it was $145,000,000; it is now $145.5 millions. To tell you the truth I did not recall there had been any change whatever. I do not know why that figure is up by $500,000.

Q. The implication is that the banks have withdrawn from their reserve funds to equalize profits?—A. I beg your pardon?

Q. The implication is that the banks have withdrawn from their reserve funds to equalize profits?—A. I would say to provide for losses.

Q. To provide for losses?—A. Yes.

Mr. JAQUES: Mr. Chairman, is it not a fact, Mr. Towers, that the banks have large hidden reserves?

Mr. TOWERS: Not to my knowledge.

The CHAIRMAN: They are hidden from the governor if they are there.

Mr. JAQUES: I understood they were hidden.

The CHAIRMAN: What is the evidence?

Mr. JAQUES: It is generally accepted that they have hidden reserves, although their auditors have not the information.

By Mr. Kinley:

Q. Mr. Towers, may I ask a question? You said that they reduced their reserves to look after losses. At the same time they maintained their dividends?—A. They reduced their dividends.

Q. Is it not natural in ordinary circumstances when you do not make a profit, to stop your dividends?—A. It might be the natural thing in the case of many industries, but there are special circumstances which the banks have to take into consideration. If you have the responsibility of operating a bank and you have to make a choice between taking something from your reserves and maintaining somewhat reduced dividends, or cutting out your dividends entirely, it is bold man who will decide that the elimination of dividends would have no effect on confidence.

Q. Of course, that is perfectly legitimate in private industry. I thought the law said that you must pay dividends out of profits or reserves?

Mr. LANDERYOU: What are the banks charging the government now for money for short term purposes?

Mr. CLEAVER: I think we should get an answer to that question.

Mr. TOWERS: They are not loaning anything to the government. You mean direct loans or security issues?

By Mr. Landeryou:

Q. Security issues?—A. The security issues? You will find the quotation and yield of those shown in market reports or at the time of new issues. For example, in the issue which was made yesterday, speaking from memory, the short term, 3 year $1\frac{1}{2}$ per cent obligation, cost the government about $1 \cdot 70$ per cent.

Q. If the banks are losing money, as has been suggested by Mr. Clark, why it is they loan money at that rate; why do they not charge more?—A. They have not got any alternative because they cannot get sufficient loans at the higher rate.

By Mr. Kinley:

Q. Mr. Towers, I question your answer a while ago. You say that it would be the natural thing to do in all businesses except banking, to cut the dividend first?—A. That was rather a broad statement. One would have to judge by individual cicumstances.

Q. Do not companies build up reserves for the purpose of stabilizing dividends?—A. No doubt that is a much more reasonable way than the way I put it before. I should have said there were certain special considerations of confidence in relation to banks.

By Mr. Coldwell:

Q. Mr. Towers, have you the memorandum that Mr. Woodsworth asked for?—A. Yes, I have.

Q. Would you put it on the record?—A. Yes, I will. Mr. Chairman, with the permission of the committee I will put on the record the reply to questions asked by Mr. Woodsworth and also figures showing net repatriation of Canadian government bonds in the last ten years in response to a question by Mr. Landeryou. I will also put on the record this reply to questions asked by Mr. Deachman and also to questions asked by Mr. Tucker.

(Replies to questions asked by Messrs. Woodsworth, Landeryou, Deachman and Tucker, appear as appendices to this report).

Mr. KINLEY: Mr. Chairman, it was arranged the other day that I should follow Mr. Coldwell, but I had to attend in the house and I lost my turn. Could I get my turn back again?

The CHAIRMAN: We have promised Mr. Taylor that he will follow Mr. Clark. Mr. Clark will start at our next meeting.

Mr. KINLEY: I am willing to defer to Mr. Taylor.

Mr. CLEAVER: I wonder if I could follow Mr. Kinley?

The CHAIRMAN: I think it should be the understanding of the committee that Mr. Clark should finish at our next meeting, followed by Mr. Taylor, Mr. Kinley and Mr. Cleaver.

The committee adjourned to meet Monday, May 15, at 11 o'clock.

APPENDIX "A"

QUESTIONS BY MR. WOODSWORTH ON THE EFFECTS OF THE GOVERNMENT BORROWING $50,000,000 FROM THE BANK OF CANADA AT 1/20% PER ANNUM, TO USE FOR PUBLIC WORKS.

(1) *Would $25,000 per annum pay the Bank of Canada's expenses?*

If the Bank of Canada's participation were limited to creating first a deposit in the Dominion Government account and later deposits in the accounts of the chartered banks, then $25,000 per annum, obviously, would more than cover any additional cost to the Bank. However, if it were necessary to issue and service Bank of Canada notes, the total cost involved would be much greater than $25,000 per annum, as is illustrated by the statistics in the table on page 402 of the Minutes and Proceedings.

(2) *What would be the procedure?*

The are two possible methods of procedure:

(*a*) The Government might withdraw the $50,000,000 in Bank of Canada notes and use them to pay contractors and others.

(*b*) The Government might issue cheques on its account in order to make payments to contractors and others.

(3) *The Effect on the Accounts of the Chartered Banks?*

(a) Regardless of which of the procedures just mentioned was adopted, the result would be to increase the cash reserves of the chartered banks by about $50,000,000.

(i) If the Government had used Bank of Canada notes as a means of making payments, almost all of those notes would find their way back to the chartered banks increasing their cash reserves.

(ii) If the Government drew cheques on the Bank of Canada, those cheques would be presented by the banks and credited to their balances at the Bank of Canada, thus increasing their cash reserves by $50,000,000.

(*b*) The Canadian deposit liabilities of the charctered banks would be increased by about $50,000,000 through the deposits by the public. This increase in chartered bank liabilities would balance the increase of assets in the form of cash.

(c) The increase in cash reserves would stimulate the banks to add their earning assets, which might, if the banks could find suitable loans or investments, increase by $450,000,000 and increase deposit liabilities by the same amount. Deposits would then be $500,000,000 larger than before this transaction occurred and assets larger by the same amount in the form of $50,000,000 cash and $450,000,000 other assets.

(4) *The Effect on the Accounts of the Bank of Canada?*

(a) The first effect would be to increase Bank of Canada liabilities by $50,000,000 in the form of a deposit of the Government—accompanied by an increase of the same amount in assets held in the form of Government securities or advances.

(b) If the Government withdrew its deposit at the Bank of Canada in Bank of Canada notes, the second effect would be to decrease the Bank of Canada's liability in the form of a Government deposit by $50,000,000 and increase its liability in the form of Bank of Canada notes by the same amount. There would be no change in assets.

(c) If the Government withdrew its deposit at the Bank of Canada by drawing cheques on the Bank of Canada, the second effect would be to decrease the Bank of Canada's liability in the form of a Government deposit by $50,000,000 and increase its liability in the form of a deposit of the chartered banks, by the same amount. There would be no change in assets.

(d) If the Government had paid out $50,000,000 in Bank of Canada notes, presumably when the public deposited such notes at the chartered banks, the latter would return most of them to the Bank of Canada, so that the Bank of Canada's liability in the form of notes would decrease and its liability in the form of a deposit of the chartered banks, increase by the same amount. There would be no change in assets.

(e) On the basis of present gold reserves an increase in note and deposit liabilities of $50,000,000 would not reduce the reserve ratio to 25% and therefore the minimum gold reserve section would not have to be suspended.

(5) *Methods of recall of notes, if inflation ensued?*

As I have already mentioned, there would be a very small increase, if any, in the amount of Bank of Canada notes in public circulation. I assume, therefore, that Mr. Woodsworth had reference to the methods by which the chartered banks' cash reserves could be reduced if the circumstances of inflation ensued.

The ordinary central banking method of effecting the desired reduction in chartered banks' cash reserves would be for the Bank of Canada to sell the required amount of its assets, payment for which by the public or the banks would reduce the chartered banks' cash in the form of notes of and deposits with the Bank of Canada.

The fiscal methods by which Mr. Woodsworth suggests that the result might be obtained, namely, taxation or Government borrowing, would be effective if the Government deposited the proceeds of taxes or borrowing at the Bank of Canada, the effect of which would be to decrease banks' cash reserves by the same amount. I should like to point out that in these circumstances, the Government is practically in the same position as if it had taxed or borrowed from the people to obtain the $50,000,000 in the first place, instead of obtaining a loan from the Bank of Canada.

(6) *The possibility of inflation?*

In raising this question Mr. Woodsworth pointed to the currently low level of the general wholesale price index as compared with 1920 and 1929, as an indication, I assume, of the probable remoteness of inflationary results from the $50,000,000 transaction which he described.

Internal monetary expansion of this type may not produce a marked increase in the general price level for a time because of the importance of export and import prices in the Canadian price structure. It will, however, tend to lower the rate of interest and increase the burden borne by savings depositors, policy-holders and, in general, those who receive fixed interest incomes.

The further effects of such an internal monetary expansion depends upon when and to what extent the additional money created is actively used by the public. In this connection I should like to point out that the potential increase of $500,000,000 in bank deposits would be a 20 per cent increase over their present amount.

Active use of the increase in the volume of money would produce an interal situation which would force a decision between reversing the policy of internal expansion and depreciating the external value of the dollar.

Currency depreciation would increase the burden borne by fixed-interest recipients and extend the burden to wage-earners who would bear a major share of the internal transfer caused by depreciation.

As I have mentioned on a number of previous occasions, I am not saying that a policy of this kind should or should not be adopted, but merely trying to show that the problem is one of deciding where the burden will be imposed and that a policy of the sort described is not a costless one.

APPENDIX "B"

NET REPATRIATION OF CANADIAN GOVERNMENT BONDS, 1927-1937*

Dominion and Provincial Direct and Guaranteed and Municipal Issues
(Millions of Dollars)

1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1927-37
mm. $107·7	+20·2	+76·9	+205·2	+27·8	+30·4	+9·6	−29·0	−92·3	−71·2	−24·3	+261·0

*(1) plus sign denotes net inflow of capital; a minus sign indicates a net repatriation of Canadian bonds.
(2) These statistics exclude capital movements through the international purchase and sale of outstanding securities which are not available throughout the whole of this period.
(3) Par values are used throughout.

APPENDIX "C"

REDUCING RATES OF TAXATION RATHER THAN INCREASING EXPENDITURES

(QUESTION BY MR. DEACHMAN)

It has been suggested that the effect of government "deficit spending" might be obtained by reducing rates of taxation rather than by increasing the level of government expenditures.

As I understand it, the theory underlying the proposal to lower tax rates is that such action would impart a stimulus to private spending which would restore general economic activity of a more normal character than might be obtained by increased government participation in various projcets.

If I am correct in my understanding, then the fundamental consideration is whether lower taxes will actually result in an increase in private spending. In this respect the nature of the taxes involved and the particular time at which the reductions are made seem to me to be very important.

Insofar as taxes are paid with money which would otherwise remain idle, I do not suppose that there would be any increase in private spending if the rates were lowered. Only to the extent that existing taxes are actually impeding private spending would one expect to obtain a stimulus to increased private activity.

The circumstances in which a reduction of tax rates was made appears to me to be an important factor in determining the reaction upon the volume of private spending. When the level of business conditions is declining and the psychological attitude of the public is towards a further deterioration, I doubt whether a reduction in tax rates would be a sufficient stimulus to initiate a

revival of confidence in the future and increase private spending. A rise in idle balances would be much more likely.

Not only is reduction in taxes a less positive stimulus to increased activity than government spending, under the conditions just mentioned, but it is a considerably less flexible technique. Very seldom is it true that depression is spread evenly over the fiscal area affected by any given tax. Therefore the benefit, if any, from the tax reduction tends to be diffused and to a considerable extent go to sections which relatively speaking are not in need. Government spending on the other hand, is a method which can in most cases come nearer to benefiting only the desired section of the economy.

An important feature in determining the relative advantages of tax reduction versus increased government spending, would be the productiveness or value of the type of spending in which the government might engage. If increased government spending would be non-productive, then probably it would be preferable to try and get even a partial response from private industry. On the other hand if there were productive avenues of investment open to the government, then an increase in government spending might well be better than relying on the results of an effort of the kind under discussion to encourage increased activity in private industry.

Changing rates of taxation impose burdens which established rates usually do not, according to the axiom that "an old tax is a good tax." It is quite likely that if a decrease in tax rates had to be reversed at a later date there would be more dislocation than would be caused by a proper easing-up of government expenditures as private spending recovered.

Quite apart from the question of reducing taxes, I believe that uncertainty on the part of the public, regarding the nature and extent of future tax increases may be an appreciable factor in holding back private spending. Private business initiative has of course been curtailed not only by the international political situation but also by domestic uncertainty.

To summarize, I would say that reducing taxes to promote recovery is not a plan which is likely to be widely effective in raising private spending and at the same time has disadvantages from the viewpoint of flexibility. I do believe, however, that it is a proposal which is worthy of careful consideration with respect to the limited field in which it might be a practical alternative to increased government spending.

APPENDIX "D"

SHOULD CANADA USE THE AVAILABLE SURPLUS IN THE BALANCE OF PAYMENTS TO INCREASE IMPORTS RATHER THAN REPATRIATE DEBT

(QUESTION BY MR. DEACHMAN)

During the last few years Canada has had a favourable balance of trade which has enabled her to repatriate some $500 millions of foreign obligations. Before discussing the advisability or otherwise of reducing our foreign debt under existing conditions, I should like to mention a few factors concerning the situation in which this large favourable balance was created.

To a very large extent the lower level of our imports in recent years relative to 1926-29 has been due to smaller imports of capital goods—commodities which were intimately associated with the much larger amount of capital investment in this country during the pre-depression years. The reduction in imports of this character has been due partly to the unfavourable outlook for some industries and partly is a natural reaction following a fairly large expansion in plant and equipment in the earlier years.

While the value of Canada's imported consumable goods has been considerably lower than in 1926-29, due to lower prices paid for such commodities, the volume of consumable goods imported appears to be at least as large as in pre-depression years. In other words, on the whole, Canadian consumers were importing a somewhat larger amount of consumable goods during 1937-38 than in 1926-29. When the fact that domestic industries are in many cases supplying a higher proportion of Canadian consumption than a decade ago is taken into consideration, it appears that the favourable balance of trade has not been achieved at the cost of a reduction in the volume of consumable imports in relation to 1926-29. Obviously, of course, the distribution of those goods and their products within the Canadian economy has changed—some areas have received less and others more.

Naturally, the fact that there has been a surplus available for repatriation of foreign debt means that there *could* have been a larger volume of imports, either of consumable or capital goods—or both. There are a number of factors to be taken into consideration in determining whether such an increase in imports would have been desirable from the viewpoint of the country as a whole.

Recovery in Canadian export trade during the last few years witnessed a great increase in the absolute and relative importance of non-ferrous metals and forest products, two items which together contributed more than one-half of our merchandise exports during the last two years. Although the importance of new metal discoveries in recent years has obscured the trend, yet it remains an indisputable fact that the products of these two industries are capital assets which are not being replaced in the case of mining and only partly replaced for the forest industries and which cannot be counted on as a major source of export income forever.

This factor and also the fact that the future markets for our agricultural products, which have declined in importance, remain uncertain because of the existing world trend towards nationalism and self-sufficiency, are two arguments which favour caution when considering the question whether Canada should live on a scale which would absorb all of our present export income.

Whatever action might be taken to increase our imports should be—as I have mentioned before—with a view to strengthening the economy particularly in relation to the future position of our balance of payments as it appears in the light of present conditions.

If it were considered that the low level of foreign demand for many of our exports were permanent, then there would be a case for revamping the Canadian economy to enable us to provide more of the things we need, at home. The heavy cost of such a program makes it impractical for dealing with a temporary situation.

In general, any action which would profitably increase our export income or reduce our payments abroad would be a strengthening influence. In this connection it is worth noting that a reduction in foreign debt results in a corresponding decrease in our obligations payable to other countries.

Mr. Deachman also asked what effect Canadian monetary policy had had upon the existing situation.

The "easy money" policy which has been followed during the last few years has improved the market for new and refunding issues of securities. Since the amount of new issues in view of existing conditions has been relatively small, refunding issues to repatriate securities held abroad have been an important feature.

If domestic monetary policy had been less expansive and domestic interest rates higher, it is probable that the relative interest rate structures here and abroad would have offered somewhat less incentive for Canadians to repatriate foreign-held securities. But even if interest rates had been higher in Canada, I think the favourable balance of trade would have been at least as large as it

has been and the pressure of such funds upon the exchange market might well have raised the exchange value of our dollar to a point where repatriation would be as attractive as under the actual conditions of lower interest rates and a lower exchange value of the dollar.

APPENDIX "E"

THE EFFECTS OF IMPOSING A TAX OF 1/12 PER CENT PER MONTH ON SAVINGS DEPOSITS

(QUESTION BY MR. TUCKER)

The first effect of the proposal to impose a tax of 1/12 per cent per month on savings deposits would be to reduce the net interest return on personal savings deposits from $1\frac{1}{2}$ per cent to $\frac{1}{2}$ percent per annum. Other effects would depend upon the action taken by the depositors concerned.

If savings depositors considered that even at $\frac{1}{2}$ per cent per annum net interest return, a cash balance was preferable to any other form of investment, then savings deposits would remain the same and the government would receive increased revenues of say $17 mm. per annum at the expense of a similar reduction in net interest received by depositors.

If savings depositors felt that a net interest return of $\frac{1}{2}$ per cent per annum was so small that they preferred some other uses for their funds, I think it would be very unlikely that they would increase their purchases of goods and services. In all probability they would turn towards other forms of investment.

In so far as corporate securities are concerned there is every incentive already for the public to purchase any sound new issues which come on the market. The supply of these, however, is quite small so that the important avenue of investment to which savings depositors might turn would appear to be government securities.

An increase in demand of this kind for government securities would reduce the yields on government securities which would force the banks ultimately to reduce the rate of interest paid on deposits. I assume that there is no intention that the tax on savings deposits would be a capital levy and that the tax would be lowered in step with the reduction in deposit interest rates. Under these circumstances the effect of the tax on deposits would be the same as that of an extension of the easy money policy which has been followed during the last few years and which could be extended if it were thought desirable.

The tax on deposits as a fiscal measure is open to objection because of its inequity. It would fall particularly heavily on the small depositor who would have very little, if any, chance of profitably employing his funds elsewhere. It might lead him to withdraw his deposit and hold notes. This would be a most undesirable development, both from a social and financial point of view.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 18

MONDAY, MAY 15, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

MONDAY, May 15, 1939.

The Standing Committee on Banking and Commerce met at 11.15 a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Clark *(York-Sunbury)*, Cleaver, Deachman, Hill, Jaques, Kinley, Macdonald *(Brantford City)*, McGeer, Martin, Moore, Plaxton, Quelch, Ross *(St. Paul's)*, Stevens, Taylor *(Nanaimo)*, Tucker.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Mr. Jaques again referred to an extract from "Banking and Industry" by A. W. Joseph, submitted by him on May 10 as expressing views opposed to those of the Australian Commission on the Douglas Social Credit theory, and requested that this extract be printed.

Discussion followed in the course of which it was stated by Mr. Jaques that the views expressed by Mr. Joseph were endorsed by the Social Credit party.

Mr. Stevens moved,—

That the statement by Mr. Joseph be placed on the record subject to the examination, on a later date, of Mr. Quelch and Mr. Jaques on the said statement and on their own personal views.

Mr. Cleaver moved in amendment thereto:

That the following words be added to the motion, viz: "and that the Social Credit group in this House be requested to file their proposed remedy in writing at the earliest possible date."

Motion, as amended, carried. (See Appendix "A".)

Examination of Mr. Towers was continued.

At 1 o'clock the Committee adjourned until 4 p.m.

AFTERNOON SITTING

The Committee resumed at 4 o'clock.

Members present: Messrs. Clark *(York-Sunbury)*, Cleaver, Deachman, Hill, Kinley, McGeer, Mayhew, Moore, Quelch, Ross *(St. Paul's)*, Ross *(Middlesex East)*, Stevens, Taylor *(Nanaimo)*, Thorson, Tucker, White.

Mr. Jaques and Mr. Quelch submitted an extract from "The Case for Alberta" (Part 1—Alberta's Problems and Dominion-Provincial Relations) published by the Government of the Province of Alberta, 1938, and requested that this be printed in the record in addition to the statement by Mr. A. W. Joseph.

The Committee agreed. (See Appendix "B".)

Mr. Towers was further examined. He filed two statements relating to chartered banks' earnings and which appear in this day's evidence.

At 6 o'clock the Committee adjourned until to-morrow, Tuesday, May 16, at 4 o'clock, p.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

MONDAY, May 15, 1939.

The Standing Committee on Banking and Commerce met at 11.15 o'clock. The Chairman, Mr. W. H. Moore, presided.

In attendance: Mr. GRAHAM FORD TOWERS, Governor of the Bank of Canada.

The CHAIRMAN: Gentlemen, we can proceed. Mr. Clark has the floor.

Mr. JAQUES: Mr. Chairman, before Mr. Clark starts I would like to draw your attention to the brief which we want to put into the record in answer to the Australian inquiry which has already gone into the record. I notice that the Australian report takes twelve or fourteen pages, whereas this would take a little over half of that, and I am told by people who have read the proceedings in that part in which I was putting the case for our ideas, that owing to the amount of questioning the evidence is so broken up that nobody can follow it; that is, it is so broken up with questions. Now, this is a concise brief made by a man who is a master of his subject—

Hon. Mr. STEVENS: Who is he?

Mr. JAQUES: Mr. A. W. Joseph, M.A., Bachelor of Science, and he is a member of the Institutes of Actuaries in Great Britain, and this is a paper which he read to the Institute of Actuaries in Great Britain. It puts our case—not the remedies, but merely an analysis of the present system—in the briefest and most concise form. People can read the Australian report without interruption, and this is a concise statement and people will be able to follow the idea it contains, whereas if they read my evidence they will find it is continually interrupted. Now, I have no objection to being interrupted; I like answering questions; but, after all, my remarks are hard to follow in the form in which they appear, and if we could just put this statement in it would be so clear and concise, and it is only a matter of six or seven pages.

Mr. DEACHMAN: How much would that take on Hansard?

Mr. JAQUES: That is what I mean—six or seven pages—about half what the Australian statement required. That is what I am told by the printer.

Hon. Mr. STEVENS: It would take about twice that, I should think.

Mr. JAQUES: I may say that I find in this committee there is a tendency to criticize and, if possible, discredit—

Mr. DEACHMAN: Call it scrutinize instead of criticize; we are all seeking the truth.

Mr. JAQUES: Personally, I am not here to defend the banks at all, and I am not here to attack anybody or anything unjustly; but I am here to forward ideas which have stood the test of time in spite of criticism; ideas which are held by increasing numbers of people all over the empire; and I have consulted with my colleagues, and they would like to have this statement put concisely on the record in evidence to answer the arguments of the Australian commission. My own remarks are too broken up for anyone to follow with much profit. I am not complaining about the questioning; as I said before I like to answer questions.

Hon. Mr. STEVENS: Everybody is subject to that; that is the ordinary routine of a committee; that is what committees are for.

Mr. JAQUES: The point is this: the Australian Commission is not—

Hon. Mr. STEVENS: Of course, you must remember that you were not giving evidence; you stated that you were giving evidence.

Mr. JAQUES: As a matter of fact I think when Mr. Towers said that he would let the Australian Commission answer for me it was a question not of answering questions, but of more or less giving a resume of those ideas, and they were not consecutive, because my remarks were broken up by questions. Now, surely if we are sincere we want to get to the bottom of things; we want to have all arguments put in the best possible form. These are not new ideas.

Hon. Mr. STEVENS: Make your request, and we can discuss it.

Mr. JAQUES: I am making my request now. I want to give our reasons for the request of putting this report on the record so as to make the statement consecutive.

Mr. DEACHMAN: Mr. Chairman, I think that when the report of the Australian Commission was filed it was admitted that if anything arose out of that report on which we might desire to question Mr. Towers we would be permitted to do so. Is that correct, Mr. Towers?

Mr. TOWERS: Undoubtedly.

Mr. DEACHMAN: I said that the report, as far as I was concerned, should represent practically the evidence you would present, though in slightly different language; therefore I think we ought to be quite willing to print the report which the Social Credit representatives request under similar conditions, and that they be permitted to print that report as it is there and then that we have an opportunity to examine the best representatives of social credit we can find in regard to what is contained therein. Speaking personally, I would like to see the best possible argument presented in favour of social credit; then it will give an opportunity to the people who want to study the question to see what there is in it or what there is not in it. At the same time, I think the representatives of social credit ought to be here, and in that connection I think they ought also to be quite ready to present the details of their plan in a better way than they have done so far.

Mr. CLEAVER: Mr. Chairman, I agree with Mr. Deachman, and I would like to say further that I understand that Mr. Jaques said that this paper which he proposes to read does not deal with their proposed remedy. I think that they should come forward with their proposed remedy at this time and that we should not be further delayed; that is, that we should have a further opportunity of examining Mr. Jaques and other members of the Social Credit group, not only with respect to this paper which he proposes to read, but also with respect to their proposed remedy, and I do think it should be forthcoming.

Mr. JAQUES: I did not propose to take up the time of the committee with reading it. With your permission, I would like to put it in just as the Australian report was put in.

The CHAIRMAN: Mr. Jaques, there is rather a distinction between the report of a government and a statement made by a British accountant in regard to a matter; in the second place, this statement does not refer to the Australian finding, as I have read it at any rate; and in the third place you will remember that I suggested that it was a little bit too long, quite a bit too long, and that you might serve your purpose by abbreviating it, because it seems to me there is quite a bit of repetition, and furthermore that we had already dealt with the main points. Now, I am told that it would take much more than six pages to print this statement; and, of course, if we allow this particular statement or this sort of statement to go in it is very hard to say where the end would be, because others will want to put in statements of a similar sort.

Hon. Mr. STEVENS I have a statement here. For example—

[Mr. Graham Ford Towers.]

Mr. QUELCH: Mr. Chairman, I would like to say a word or two.

Hon. Mr. STEVENS: I have a statement here, Mr. Chairman—

Mr. QUELCH: Mr. Chairman—

The CHAIRMAN: Mr. Quelch, Mr. Stevens has the floor.

Mr. QUELCH: If he has he is still sitting down.

Hon. Mr. STEVENS: Let Mr. Quelch proceed.

Mr. QUELCH: I understand, that the committee allowed a certain very long statement to be put on the record regarding the royal commission in Australia which has made certain charges against the social credit movement. Surely, in all fairness, if a long statement of that kind is going to be allowed on the record it is only just that a similar statement should be allowed for the other side. Now, I think that about as comprehensive a statement as can be found anywhere is that put forward by Mr. Joseph, to which Mr. Jaques has referred. Personally, the only point I would like to see dealt with is the question of savings and reinvestment of savings. The royal commission goes into a long analysis of the A plus B serum, one which, personally, I am not very much interested in; but on the question of reinvestment I am, I admit, very interested, as I have always stressed the fact that it is the main cause of the deficiency of purchasing power, and it is especially interesting in view of the fact that some leading economists of the day such as Maynard Keynes, G. T. H. Cole, Irving Fisher and Professor Soddy, have also stressed the fact that the reinvestment of savings is one of the causes of the deficiency of purchasing power.

Mr. CLEAVER: That occupies only one page of the report.

Mr. QUELCH: The Australian report has tried to disprove the basis of the social credit argument that there is a deficiency as between total prices and money available to pay those prices and anly a small section of their brief is used to deal with the question of investment. We maintain that the reinvestment of savings is one of the main causes of the deficiency but we find that they only make a slight reference to this point. As a matter of fact they disregard that argument entirely. We take the stand that as soon as money is saved there is a deficiency and when savings are invested that action eventually creates a permanent deficiency to that extent. I would be glad to deal with this subject at some length. I have dealt with it in the house on five or six different occasions; but I think it would save time if the committee allowed this brief statement to be put on the record; it will be in clearer language than I could put it. I cannot see the objection; it looks as though you are not anxious to have the other side of the question put on the record.

Hon. Mr. STEVENS: Mr. Quelch is all wrong. Before he rather rudely interrupted me I was about to suggest that we should certainly put their statement on the record. What I was going to ask Mr. Jaques was this: is this held by the Social Credit advocates as a fairly complete statement by them? Because, if it is not we ought to have that statement; it was agreed, I think, in the committee a month or two ago that it would be desirable to have as complete a statement from our Social Credit friends as possible. I think Mr. Quelch is entirely wrong in his suggestion that there is any disposition to not give them every possible opportunity.

Mr. QUELCH: An approach has been made. Mr. Jaques submitted the statement, and it has not been put on the record.

The CHAIRMAN: I said it would be submitted to the steering committee, and I have not had an opportunity to submit it yet. I did suggest, however, that the statement was too long; that it did not answer the Australian statement; and it was supposed to be given to us as an answer.

Hon. Mr. STEVENS: I was going to add this, that it ought not to be considered as a precedent because I was going to illustrate that in this way: here is a very important statement by the Midland bank, and I think it is something we should consider. I am not going to ask that that should be put on the record; but I think we should clearly understand that we should not start simply placing on the record long statements by authorities outside. However, in this case I believe we should make an exception.

The CHAIRMAN: Provided that it is a statement which is accepted by the Social Credit people.

Hon. Mr. STEVENS: A statement which our Social Credit friends assert is their reply or statement in regard to their policy, because I would be extremely ansxious to study such a statement. I have not read Mr. Joseph's statement, but let me say to Mr. Quelch that I have known Major Douglas since 1923, and I have had a lot of correspondence with him and have met him many times, and I have met the respresentatives of the Social Credit organization in London on several occasions and I have discussed their problems with them. I have been tremendously interested for the last sixteen years in social credit. The fact that I have not adopted it or agreed with it does not either reflect on my intelligence or indicate that there is any disposition to be unfair to the representatives of social credit. It is a very narrow view to take such a position as that; but, Mr. Chairman, I would send this to the steering committee. Personally I would agree or give my vote to it going on the record as I understand Mr. Jaques to say it is a complete statement of the social credit position.

Mr. MACDONALD: I think we should make ourselves clear on this, that it is not just Mr. Jaques' opinion, but that he agrees with it and that it is representative of his party's views. I believe the chairman said, where are we going to stop? Mr. Stevens also said, where are we going to start? If we start in by putting statements on the record somebody may come along with a book and move to have the book put on the record.

Mr. TAYLOR: You have started.

Mr. MACDONALD: I do not think we should adopt that procedure. In this case I think we should have a statement from someone. If Mr. Jaques is prepared to admit that this is representative of the views of the Social Credit party and if the statement could be condensed, it might be well to do so. I suppose the cost of printing two or three extra pages would not make much difference.

The CHAIRMAN: Suppose the committee deals with the matter now instead of referring it to the sub-committee?

Mr. JAQUES: The point that Mr. Macdonald raised can be answered in this way. This pamphlet by Mr. Joseph has been endorsed by Douglas himself, and at the beginning of the pamphlet there are a few lines by Douglas, who endorses the ideas that are expressed in the pamphlet.

Mr. CLEAVER: Does the Social Credit group in this house endorse it?

Mr. JAQUES: Quite.

Mr. QUELCH: Certainly.

Mr. JAQUES: It would be endorsed by social creditors—those who understand it—the world over.

Mr. CLEAVER: Does it also include the proposed remedy?

Mr. JAQUES: No, this does not.

Mr. MACDONALD: You said it was endorsed by "social creditors who understand it."

Mr. JAQUES: Yes.

[Mr. Graham Ford Towers.]

Mr. MACDONALD: Are there two groups, one who understand and one who do not?

Mr. KINLEY: To make matters short—

Mr. JAQUES: I would put it this way: it is a political movement as well as an economic movement. If we are going to wait until every voter in the country has a clear understanding—

Mr. CLEAVER: Does your group in the house endorse it?

Mr. JAQUES: Yes.

Mr. CLEAVER: What about the remedy? Have you not had time to prepare a statement of the remedy ?

Mr. JAQUES: If I may mention remedy—I feel I am taking Mr. Clark's time; I am here to listen to him. Now, as to the remedy—

Mr. KINLEY: Remedy for what? Who is sick?

Mr. JAQUES: We are all very sick; the country is very sick.

Mr. KINLEY: I do not admit that.

Mr. JAQUES: I am not myself, but I know there are many who are.

Mr. KINLEY: I mean sick financially.

Mr. JAQUES: The reason, Mr. Chairman, that I have not attempted to give any remedies, social credit remedies, is this; until people realize what is wrong with our economic condition there is not much good prescribing remedies.

Mr. CLEAVER: You suggested this statement would tell us what is wrong?

Mr. JAQUES: Quite.

Mr. CLEAVER: Why not complete the statement and give us the remedy?

Mr. JAQUES: Let me come to that.

Mr. KINLEY: It is a step, of course.

Mr. JAQUES: Let me come to that. We do not wish to take up more time, but if it is the desire of this committee to have a brief outline of the social credit remedies, and there is time without encroaching on other members who want to be heard here, we are perfectly willing to do that. Mr. Quelch and the rest of us talked it over and it was more or less agreed if that was what the committee wanted, and if it does not prevent other members from putting their views forward who have not had a chance at all so far, and if the time can be found, I shall be very pleased to give a brief outline of the proposed social credit remedies.

Mr. CLEAVER: I think both these statements should go on the record concurrently and one examination could then cover the field. It would save a lot of time that way.

Hon. Mr. STEVENS: If this is printed we can read it. I do not know what is in it, but I should like to read it.

The CHAIRMAN: Will you make a motion?

Hon. Mr. STEVENS: I will move, Mr. Chairman, that the statement by Mr. Joseph representing the social credit views be placed on the record, subject to the examination of Mr. Quelch and Mr. Jaques later as to the further views and an examination on this statement, if they would agree to that.

Mr. QUELCH: Mr. Chairman, I should like to take exception to the remark of the member from East Kootenay that my interruption was rude; in view of the fact he was lolling back in his chair and talking, I did not realize he was addressing the chair. I do not think his words were well taken.

Mr. KINLEY: The Australian report was put on the record for two reasons. First, because it was from a responsible party representing public opinion in Australia, and secondly, because the governor of the Bank of Canada said it concisely represented his views. Now, if this is going on, it should be from

some responsible person and it should represent the views of the Social Credit party here on which they base their case. In these circumstances I think we should put it on the record.

Mr. Jaques: It does that, Mr. Chairman. Every social crediter in the world would endorse Mr. Joseph's analysis of the existing conditions.

The Chairman: Those in favour please signify?

Mr. Cleaver: I would ask the mover and the seconder of the motion if they will be good enough to consent to adding the words: "that the Social Credit group in this house be requested to file their proposed remedy in writing at the earliest possible date."

Mr. Kinley: Do they propose a remedy?

Mr. Cleaver: Yes.

Mr. Kinley: This may be the diagnosis, but not the remedy.

Mr. Jaques: That is all it is, a diagnosis.

The Chairman: What is your pleasure, gentlemen? Those in favour please raise their hands.

Motion agreed to.

The Chairman: All right, Mr. Clark.

Mr. Clark: I should just like to read a few notes and then I have a few questions. I tried to point out on Thursday my view that governments should not be in business except to promote and maintain private enterprise; also that it was of great importance to our country to continue a banking system that has the confidence of the people, and that the bank results during the depression have been to increase that confidence.

Instead of condemning the banks for having possibly made 5 per cent profit on capital and reserve during the last nine years, they should be commended because it is of importance that they continue to pay dividends.

It is realized that bank stock is held by many who are dependent upon the dividends. The same applies to stock of many corporations. The longer a concern is in business, the more women, for instance, will become holders of stock.

I maintain that the bank's reserve must be regarded the same as capital from an earning standpoint. It is a fact that in the last nine years, instead of increasing the reserves there has been actually some decrease of bank reserves. This is exactly contrary to a statement that was made in the house. The records show that for years the chartered banks in making addition to capital have issued new stock at a large premium. In the case of the Bank of Montreal there was an issue at $100 permium; Bank of Nova Scotia, $155 premium; Dominion Bank, as high as $110 premium; Imperial Bank, at $100 premium per share. This premium was put into reserve, which means that the shareholders furnished this capital.

It is true there have been material amounts many years ago taken from profits and added to reserve, but that would be fair because some of the banks have been in business very many years, and that is the way capital is built up in a new country especially. To show how absurd it would be not to add profit to capital, I might mention something I know personally. In that connection it is said that capital is not profit. Capital is profit, of course, made at some time. In that connection, may I make this remark: the firm that I know personally to pay a certain income tax for the past year would require 5,000 per cent on the capital the person started in business with, and yet that person's profits have been comparatively small, especially in recent years; for instance, in a good year the concern's net profit on a thousand dollar motor car would be about 3 per cent, or $30—not that much in many years.

[Mr. Graham Ford Towers.]

My belief is that the best form of expenditure of our government is that which would encourage private enterprise. From long experience I believe that banks will make loans where they believe it is safe to make loans.

There is a difference of course in the calibre of local managers. I recall a local manager saying one time that pulpwood, which was then $20 per cord,—

Mr. CLEAVER: Before the witness leaves the question of the rate of dividends paid by the banks on capital cash reserves, I wonder if I may now get an answer to my question to Mr. Towers, at the previous sitting? You remember, Mr. Towers, you were going to compute for the committee the amount of dividends paid by the banks on capital plus a part of the reserve set up by way of sale of capital stock at a premium?

Mr. TOWERS: I thought that that was—

Mr. CLEAVER: Your estimate was 9 per cent but you were going to check it up and give it to us accurately.

Mr. CLARK: I think it is slightly less than 5 per cent.

The CHAIRMAN: Suppose we let Mr. Clark go on with his remarks.

Mr. CLARK: I have the figures here, slightly less than 5 per cent.

Mr. CLEAVER: I do not agree; I agree with the governor. I do not agree with your figures.

The CHAIRMAN: Suppose we listen to the statement?

Mr. CLARK: I have the figures. As I was saying, I recall a local bank manager saying at one time that pulpwood, which was then $20 per cord, would never go below that price, but it was not very long before it was less than half that, and has been for years.

A few years ago large numbers of fox companies were promoted in New Brunswick on the basis of something like $10,000 per pair for foxes. According to my knowledge, it was not banks who had anything to do with this, but people who became zealous over the idea of promoting the black fox business, and the result has been as might have been expected, that the capital was nearly all lost that was put in on that basis. Most of the bank managers have, from their training and experience, financial wisdom that ought to be taken advantage of.

Private enterprise needs incentive of profit to some extent, but it is not altogether dependent upon that. Other factors enter in. It might be put this way: first, profit motive; second, desire to be successful; third, public spirit.

It has been said in the house of commons that employers never pay a living wage unless they are forced to do so. This is so wrong that one cannot but conclude that the one who said that is not an employer, and has a spirit that would indeed cause the break-down of the country's economic system.

I think too, there is much exaggeration in the statements that are made in regard to the unemployed. I note where a member of this committee says that half of our population in underfed and undernourished. I had an experience the other night. A man stepped up to me on the street and said he would like some money to buy something to eat. It was about half past seven. I asked him if he had had any supper. He said, no. I was going up to get something to eat at a restaurant—I know it was late—and I said, come with me. I asked him again if he had had anything to eat and he said, no. I took him up to a restaurant, paid the manager for this man's supper and he sat down in a booth, and perhaps, unfortunately, I went to another booth and sat down. I saw them, however, bring this man his supper, and when I got up from where I was he had gone, and I said to the manager of the restaurant, "what is the matter, what has happened to this man?" "Why," he said, "he had had his supper; he didn't want any supper, he left it there." It was a good supper too, but he had had his supper, all he wanted was money for a drink.

Mr. McGeer: Surely, Mr. Clark, you would not say that that would apply to all people on relief?

Mr. Clark: No, I did not mean that.

Mr. McGeer: We have all had this experience, but because of that it does not necessarily follow that that is the condition that exists among all people on relief.

Mr. Clark: Certainly there is destitution, but perhaps not to the extent that some people think.

Mr. Cleaver: Do you suggest that your illustration is a fair illustration with regard to the unemployed?

Mr. Kinley: It is an element in the condition.

Mr. Cleaver: It is simply a case typical of people who are taking advantage of present conditions.

Hon. Mr. Stevens: It was just one of these panhandlers, everyone meets them.

Mr. Clark: We hear it stated in regard to men out of work that it is through no fault of their own. That applies, of course, in a good many cases, but there are many such cases due to indulgence in strong drink.

Mr. Cleaver: I do not think you can have any unemployment in your riding or you would not talk that way. I want to go on record as being one person who does not approve of that view.

Mr. Clark: I have had ten years of experience as mayor of our city.

Mr. Cleaver: Well, I say you must have no unemployment.

Mr. Clark: Yes, we have; and I have visited the unemployed and I have visited the poor houses too. I know about these cases.

Mr. Macdonald: He may be quoting the exceptions.

Mr. Jaques: I might suggest, Mr. Chairman, that the unspeakable suffering and worry which unemployment brings is enough to drive a large percentage of people to drink; drink is a result, not a cause.

Mr. Quelch: I think these are entirely the views of hon. members for which no one else need assume any responsibility.

Mr. Kinley: Might I interject this; in the maritime provinces we have a certain degree of stability that is not apparent in some other parts of the country and that stability exists although unfortunately we have less earning power. Notwithstanding the fact that we have less per capita wealth than any other part of Canada, not excepting Alberta and Saskatchewan—Mr. Clark is speaking from his experience and it is an experience which I think has a value to this country and to this committee.

Mr. Jaques: Everyone is entitled to his own opinion.

Mr. Kinley: Yes.

Mr. Clark: I regard the opportunity as good for private enterprise, and I would recommend training camps being established where young people could be taught self-control and how to think, and frugality and sobriety, how to work and how to live. I believe there is just as good an opportunity as when I was a young man and that men can advance now and can get work, and that work will be furnished in reasonable times. I know there are places where they need special attention, and need relief. There is no question about that. I have had experiences in actual life and in placing relief; and I have heard the statement being called ridiculous down in the house here; but I have known where it has been stated that in our city a Victorian Order nurse gave the testimony that the children of families on relief in our city were in better condition than children in families that were destitute but were not on relief.

[Mr. Graham Ford Towers.]

Mr. JAQUES: Isn't that a reflection on your relief system?

The CHAIRMAN: Order, Mr. Jaques; please let him finish.

Mr. CLARK: There have been changes. The cost of building has trebled in my time. Motor cars have come on; telephones, electric lights, radios, electrical equipment, all these things. They have contributed a good deal to private debt.

Now, I would like to ask two or three questions of the Governor of the Bank of Canada.

By Mr. Clark:

Q. The Bank of Canada acts for the government in respect to the public debt of Canada?—A. That is correct.

Q. If public works, as was suggested by some hon. members in dealing with this phase of it, if vast amounts of money were spent on them and a lot of people were employed, would that not increase public debt?—A. Presumably, yes.

By Mr. Cleaver:

Q. What about an increase in the earning power of the nation?—A. Presumably that will bring about an increase in the yield of taxes.

Mr. CLEAVER: And an increase in the value of tourist traffic, and a hundred and one other increases; in other words, these expenditures for public works might quite well be expenditures which would be revenue producing?

Mr. KINLEY: And useful.

Mr. CLEAVER: And be useful and revenue producing. We would get a value for that.

Mr. TOWERS: That is correct.

Mr. CLEAVER: And the consequent employment of labour would be a saving rather than a loss.

By Mr. Clark:

Q. Would it be the case that the direct expenditure of vast sums of public money might interfere with private enterprise?—A. We tried to state that earlier, I think; the determination as to whether or not it is well spent requires an enquiry as to what alternative uses would have been made of labour and material so employed. If, in fact, the uses to which they are put are less productive than the alternatives then that represents a setback for the whole country.

Q. Yes; in that case there might be a flight of capital from our country?—A. I was not even considering that—

Q. And resulting chaos?—A. I was not even considering that. That naturally all has a relation to what is the best use to which available capital can be put.

Mr. CLEAVER: Then, would you be good enough now to give the converse picture. You have given the black picture, now give us the other picture.

Mr. TOWERS: I thought I gave those two alternatives.

Mr. CLEAVER: Quite true, but to-day you have not. You simply gave Mr. Clark the black side of the picture. Let us have the other side. If the works are suitable and carefully chosen and are revenue producing works, the benefits would be manifest, would they not?

The CHAIRMAN: Mr. Cleaver, may I suggest that you read the report made by the international labour office as to the amount of capital expended for public works that goes to the direct worker. Now then, I think if we are pursuing this subject we ought to have an investigation as to how far that applies to Canada,

because particularly with road-building under present conditions we use mechanized equipment which we buy largely in the United States and we employ very little direct labour. I would be very much surprised if one-third of the amount spent for roads goes to direct labour on the roads.

Mr. DEACHMAN: Would not one-ninth be closer?

Mr. JAQUES: I would be more inclined to say one-tenth.

Mr. CLEAVER: I think that is absurd. I agree with you that an investigation should be made.

The CHAIRMAN: What do you think is absurd?

Mr. CLEAVER: The case which you gave, and doubly so that cited by Mr. Deachman.

The CHAIRMAN: I think I am correct, that direct labour benefit from money spent on roads in this country is very small.

Mr. CLEAVER: But why not consider the indirect as well?

The CHAIRMAN: Yes, providing it is spent in this country.

Mr. JAQUES: I can give you a direct illustration of that. Two years ago, I think it was, or it may have been three, the Alberta government rebuilt the main road from Edmonton south to Calgary and it was helped by a grant from this Dominion government, and one of the conditions of the grant was that so many unemployed—I forget the percentage, but a certain percentage of unemployed—would have to be used on this road. Now, the contractors—it was let to contractors—the expense of the road mounted to such an extent that it became the subject of a royal commission of inquiry and the government was accused of graft because on comparison it was found that the cost was excessive when considered in relation to what other roads were costing, and it was shown that the larger part of that extra expenditure was caused by the conditions laid down that they had to use a certain amount of it for direct labour for the relief of unemployment. If you are going to put men to work for the sake of work, then that must mean that slavery is the finest condition that men can be in, because there is no shortage of work there, and that is what it amounts to. The putting of men to work just for the sake of work seems to me to be just pure slavery.

Mr. KINLEY: Do you think they should live without work?

Mr. JAQUES: I mean, I regard the development of labour saving devices as having a value not in a senseless multiplication of material values, but rather because it increases leisure.

Mr. KINLEY: Yes, that is so.

The CHAIRMAN: No one would disagree with that view.

Mr. JAQUES: The condition that we have to admit, and the condition now that the world faces is this, that beyond doubt the necessities of life can be and are being provided by only a fraction, and a small fraction, of the available labour. I do not think there is any doubt about that.

The CHAIRMAN: Mr. Jaques, I am the cause of the interruption and it seems necessary perhaps to state that public works are adopted for two purposes: First of all, do we need the public works; and in that definition I would like to have an estimate as to how much this country has expended in public works as compared with other countries; and I would make a guess that we already are rather over-worked, if you like, paying for public works; because you must remember that after we build a public work we must maintain it, and that maintenance must come out of taxation. In the second place we have to deal with public works as they have dealt with them over in Europe, as a means of relieving unemployment, and the means is usually associated with the direct employment on the roads. Now, we are in a peculiar position in this country

[Mr. Graham Ford Towers.]

because we import very largely the mechanization used, with the result that the money is not spent in this country for indirect labour—but perhaps we have laboured the point long enough.

Mr. Deachman: I would like to make a little further suggestion in regard to that. If we are to study the problem which you have suggested will it not be worth while also studying the relative merit of two different types of investment. For instance, investment in a super-highway, which as far as the present situation exists in the province of Ontario is for the purpose of providing excellent facilities for tourists, while the secondary roads which the farmer uses are ignored completely and sometimes he has extreme difficulty getting to market. Further, we clear up our roads in winter for the advantage of those who use automobiles with this result that in many parts during a long period in the winter you have a bare road on the main highway and the farmer must bring his stuff to market first by sleigh over a side-road which has not been cleared and then transfer to some other vehicle suitable for the road which has been provided along the main highways.

The Chairman: Mr. Deachman, what is your estimate of the length of the tourist season in this country?

Mr. Kinley: Two months.

Mr. Ross (St. Paul's): Mr. Chairman, just in that connection, I have always thought myself that this striving for tourists trade in this country by building roads was very much overdone. The tourist traffic, I do not think, lasts in this country more than three months, and they are going to tremendous expense on work that is going to be productive for three months of the year and non-productive for nine months of the year. When it is productive it is in direct competition with the railroads of our country, and I think we should have some kind of an estimate as to the value of the tourist trade with respect to the balancing of our payments with other countries, because I do not think anybody knows just what that value is.

Mr. Quelch: The Chairman stated a national project would undoubtedly have to be financed, and would have to be maintained by taxes. But that would not necessarily be the case with projects I have in mind. For instance, irrigation. I think irrigation in western Canada has shown that it is not possible to place the cost of the project against the land and ever get it back; that if you build up such a charge you cannot get it back. If you put irrigation in as a national project without attempting to recover the cost, the land will then be able to carry the cost of maintenance. I think that is something which in western Canada could be done very profitably.

In certain drought areas we have spent and are spending millions upon millions of dollars in the form of relief. I shall give you one instance, my own constituency, since in that one constituency, or in the eastern part of districts 3, 5 and 7, we have paid out drought relief in every year since 1918. That is a long way back. In the one constituency we have paid out over $10,000,000 from 1918 to 1935, and I maintain that so long as we have farms in there we will be paying out drought relief.

There has been discussed a project which is called the William Pearce project and which was surveyed in 1922. This project would cost $23,000,000, and would irrigate in the neighbourhood of half a million acres. It would also provide a reservoir from which a far larger area could be irrigated. I maintain if that $23,000,000 were spent on that project, from then on the land would very well be able to carry the maintenance charges; but it would be futile to expect to place that charge on the land and recover it as well as maintenance charges. This area is a very arid district, a district where in many cases it takes forty acres to maintain one head of stock. Would it not be better if we could make it possible for the farmers in this district to be self-supporting?

We have paid out $10,000,000 in relief, and in the next ten years we will probably pay out another $10,000,000. If, on the other hand, we put in an irrigation project of that kind we could also install power equipment there—

Mr. Martin: Would you permit me to make a statement, Mr. Quelch?

Mr. Quelch: Certainly.

Mr. Martin: Mr. Chairman, it seems unfair to discuss this subject in this way. If we are going to make a study of the advisability of a public works program the thing to do is to do it in the proper manner, not for each member to get up and express his opinions without having established a basis. I think it is unfair to the whole subject and particularly unfair to Dr. Clark, because he has waited a long time to present his views and is now being constantly interrupted.

Mr. Clark: May I ask Mr. Quelch if he will allow me to finish?

Mr. Quelch: Certainly.

By Mr. Clark:

Q. I should like to ask the governor would he say there is a lack of currency in Canada?—A. No.

Q. It is a fact that there is money available for public need?—A. Yes, I think that is the case.

Q. I just wish to put on record the figures of the——A. Perhaps I should add to that, if I may, Mr. Clark, by saying—

Q. Yes.—A. —by saying that when I answered in that way I was naturally thinking of currency and deposits as a medium of exchange.

Q. Yes.—A. What I said did not imply that I thought the volume of production in the country was as satisfactory as it should be.

Q. Oh, no. The volume of production is down just now below what it should be?—A. Yes.

Mr. Clark: Reference was made on Thursday to the earnings of the banks in the year 1934. The amount was given as $18,000,000. In looking up the statement I find certain taxes that have to be deducted from that figure. There are certain other items, as, for instance, the Banque Canadienne Nationale has $30,000 for pension fund that would be a proper charge, no doubt, and the Provincial Bank has written off $40,000 on real estate and made provision of $50,000 for contingencies. I was uncertain as to whether that should be deducted or not. At any rate, it shows that the total net profits of the banks for the year 1934 as $13,145,000.

Hon. Mr. Stevens: For all chartered banks?

Mr. Clark: For all chartered banks, yes. And the total capital and reserve $281,000,000. I am putting them in round figures. So there would be just under 5 per cent on the whole.

Mr. Cleaver: Have you the break-down of that $281,000,000? How much is actual capital, how much is capital obtained by sale of stock at premiums, and how much is capital profit?

Mr. Clark: I have not that, but I know that a large amount has been furnished by the stockholders. But not part of that has been added to reserves in the last nine years. The reserve is less now than it was nine years ago.

Hon. Mr. Stevens: The reserve of the chartered banks of Canada less now than it was?

Mr. Clark: Yes.

Mr. Jaques: That is revealed reserve, not hidden reserve.

Mr. Clark: As regards hidden reserves, banks would not be likely to take their published reserves if they had hidden reserves.

Mr. Jaques: Nobody knows.

[Mr. Graham Ford Towers.]

Mr. TOWERS: I have not got the figures available this morning although I expect to have them. They are not quite in proper form. Perhaps if it would meet the wish of the committee I could file the figures of the net earnings available for dividends and surplus and the ratio of those net earnings to the shareholders' equity for a period of, say, 10 years. I could also, if it is the wish of the committee, file a statement made up in the form which Mr. Cleaver suggests. Although I should point this out, that if in earlier years one shows a certain ratio of earnings to capital and that portion of reserve funds which comes from premiums on capital stock but makes no allowance for the funds which have been put in earlier through the plowing back of profits, there will be a certain distortion as time goes on; that is, if money is being plowed back from profits, it will show an increasing percentage as time goes on of earnings on that part which is only composed of capital and premiums on capital stock, although in fact I do not think that distortion will appear to any extent in the circumstances of the last ten years. If it is the desire of the committee, I could file both those statements and put them on the record at the next meeting.

Mr. KINLEY: While we are speaking about bank capital and reserves, I wonder if the governor of the bank could tell us something about the double liability of shareholders in the chartered banks of Canada. That has been changed somewhat in recent years.

The CHAIRMAN: Mr. Taylor, you are next.

Mr. WARD: Mr. Chairman, I should like to ask a question just following on something you yourself said. I am sorry to revert back to the question of roads, but these records are going to be read by a lot of people and I think we should be very careful of what we put on the record. I violently disagree with your conclusions in regard to the percentage of money that is voted for roads which goes to labour. I think it would be very unfortunate, Mr. Chairman, if that statement went unquestioned.

The CHAIRMAN: Mr. Ward, may I just make a little explanation? I was speaking of the roads of Ontario at the time, the paved roads, four-track highways, and that sort of thing, which we do in a mechanized way, and not of the surfaced roads or gravel roads which of course almost entirely involve direct expenditure of labour.

Mr. WARD: That is my point. These records will be read by people clear across Canada, and with all due deference to my good friend, Mr. Deachman, and I appreciate his reference to secondary roads, for which there is a crying need for improvement in this country. I think we must not overlook the fact that we do manufacture all our cement in this country, we manufacture a great deal of asphalt in this country, and the hauling of gravel, the building of the dump, as we call it, should all be taken into consideration. I think by and large that about 90 per cent of the money that is actually invested in our roads finds its way into the pockets of the labouring men throughout the length and breadth of Canada.

If this statement gets back to the floor of the House of Commons and gets into the records of Hansard—that only one-third of the money appropriated for the building of roads absolutely went into labour—

The CHAIRMAN: Went into direct labour. May I say that I also premise my statement by the fact that there is a very comprehensive report by the International Labour Office on the subject, and I would commend it to your attention.

Mr. QUELCH: Mr. Chairman, might I make a suggestion? I have not been able to attend these meetings lately, but I have been trying to read some of the reports and I find it very hard indeed to follow the arguments because of interruptions and you have to skip pages before you can get back to the

argument under discussion. If we could allow the speaker to go right through his argument and then stop at a certaitn point, I think it would simplify matters.

The CHAIRMAN: That was the original suggestion and I hope we shall be able to carry it out.

By Mr. Taylor:

Q. With all that in mind and sensing the difficulty of getting a consecutive idea of what has been done at these meetings I have grouped my questions to bring out certain points. When that point has to my mind been sufficiently advanced then I propose to pause for discussion. If the committee will permit me to go on with the questions, which will be quite simple, I think we shall arrive at that point and then free discussion might take place.

Mr. Towers, you would not call banking a science?—A. No, I would not.

Q. It is an art and practice?—A. Yes.

Q. Essentially the first bankers were depositories of the surplus money of the merchants?—A. Yes.

Q. If you feel that you would like something more extended than a mere affirmative or negative, will you please comment, because it is for the purpose of getting your understanding of the conditions that I am raising the questions.—A. Yes, I understand, Mr. Taylor.

Q. Thank you. Empirically bankers learned that less money was paid out than came in?—A. They learned that the requirements of people were not so much for cash as they were for a handy means for transferring money.

Q. But even so, there was a definite reserve of each man's deposit remaining with the bank?—A. I think that is a fair way of putting it, yes.

Q. So that slowly established a fixed requirement of what we now call "till-money."—A. Yes; which, of course, varies in different countries depending upon the character of the business in those countries and the varying habits of the people. It is something which has been arrived at by the experience of each country.

Q. As banking became a necessary function of commercial life, the use of the cheque in English speaking countries very much increased?—A. Yes, it did.

Q. The increased use of the cheque was almost entirely responsible for the decreased percentage of "till-money" required?—A. Yes, that is true.

Q. Was there any other contributing factor to that decrease? I am asking this especially because, when I raised the idea before, I was not supported; so that I do want you to give a very clear statement.—A. I would say that the increasing confidence in the safety of banks and the increasing realization of the convenience of paying by cheques, and the development of modern business methods which brought to the fore the type of organization which could more readily understand the convenience of paying by cheque—all were factors in the development of that habit.

Q. Thank you. The present percentage might be set, roughly, at ten.—A. Yes, in Canada.

Q. In 10 per cent "till-money," the banker who is the trustee for the funds of his clients, will have 90 per cent of his deposits definitely idle money? I am not thinking of loans, of course.—A. Well, if he has only got 10 per cent in cash, he will presumably have the balance of the deposits invested in—

Q. No, I am not talking of investments. He has, first of all, got 90 per cent of the deposit as idle money. I am leading up to the point.—A. The two march together, of course; but as a lead to the final thing, perhaps that would be all right.

Q. It is for the moment idle money?—A. Well, those two things go together. The investment or the loan will usually precede the deposit; so, of course, there

[Mr. Graham Ford Towers.]

could not be any situation where the total deposits in existence were held by the banks 10 per cent in cash and the remainder idle. There would have to be assets to balance those deposits in existence.

Q. In the first analysis, the $100 must come in from the depositor before advantage can be taken of it to loan funds on the strength of that human chance which exists?—A. I could not put it quite that way. In the first instance, a bank will receive—an individual bank, shall we say, will receive—from its capital stockholders, cash for the amount of capital stock for which they subscribe; and at that stage you might find a bank with $100,000,000 in cash, in legal tender cash, and $100,000,000 in capital.

Q. But that introduces another feature. I am talking now purely of the feature of the banker's customers' deposit funds.—A. Yes.

Q. So that 10 per cent "till-money" is in the mind of the banker necessary to be retained for that purpose and 90 per cent is, before anything is done by the banker, idle funds?—A. Well, I cannot quite agree with that.

Q. Or unattached funds?—A. I cannot quite agree with that; because if he has deposits, he must have assets against them. You will find that the development of his investment in securities and in loans marches pari passu with the increase in deposits.

Q. I am not talking about his investments. Until he has made his investments, he has in his deposits 10 per cent which is obligatory for the purpose of his business, and 90 per cent which he can mentally discard for the time being, because the laws of human chance have taught him that the customer will not come back for that $90 to-day. Part of it he will come back for to-morrow and part a week afterwards and part a month afterwards?—A. Yes.

Q. And so on and so forth.—A. Yes. The only point I was making there was that one cannot visualize a situation where a banker has, shall we say, $100,000,000 in deposits, $10,000,000 in cash—which is the 10 per cent—and 90 per cent idle. The 90 per cent must, by this definition, be employed in some form. It must be in balances with other banks or in loans or investments, if the deposits are there.

Q. It is obvious that the early goldsmith did not invest that money? It is quite obvious that they held the particular amounts of the depositors sacrosanct in their safes?—A. Yes. We start on that basis, though, with the assumption of a 100 per cent reserve.

Q. Yes, I know.—A. Not 10 per cent.

Q. It was after the 100 per cent reserve had been in practice that the banker, the goldsmith, realized that only a proportion of that 100 per cent was ever asked for?—A. Yes.

Q. The banker recognizes this law of human chance, and assumes that under normal conditions the till money percentage will remain constant over a sufficiently lengthy period?—A. An individual banker, of course, will find that the 10 per cent is insufficient in the sense that the demands upon him over a period of a couple of months will be more than the actual cash that he had been holding at the beginning of that period. He will then proceed to sell securities or to call some of his call loans. He will take, as an individual banker, these ways and means of replenishing his cash to meet any demand which is in excess of the original 10 per cent.

Q. I am coming to that. Of the 90 per cent idle funds, on a 10 per cent till money basis, each 10 per cent therefore suggests itself as potential till money for a deposit of $100 or a further $90 plus the 10 per cent.—A. I am sorry, I do not quite follow that.

Q. I will read it again. Of the 10 per cent idle funds— —A. Of course, perhaps one of the troubles there is that I have not agreed to the idea of 90 per cent idle funds.

Q. I have gone back to first principles and first ideas.—A. Yes.

Q. You insist on introducing investments.—A. And loans.

Q. And say that they run together. But they did not run together in the first instance, and they do not necessarily belong to each other except in so far as the banker conducts his business in a complex manner to-day.—A. I think we must either assume that the 90 per cent is invested in securities or loans or that the cash reserve is higher than 10 per cent.

Q. Then, if we must argue that, I would say that if the loans were eliminated, the cash reserve, the till money, would be less than 10 per cent. Would I be right or wrong?—A. If the loans were eliminated would they be eliminated by a reduction of deposits, that is, paid off out of deposits, in which case the cash ratio would rise?

Q. I view the deposit field, the current deposit field, of a credit depositor, as one in which there was a necessity for having less till money than 10 per cent, because the outflow of loaned money is much faster than it is in the case of deposit money. It would immediately affect the till money when loans are out of the question. For instance, I would suggest that a loan dissipates in about forty days?—A. I do not quite follow that. You mean that when a loan is made and that amount is credited to the borrower in his deposit account—?

Q. Exactly.—A. That is does what?

Q. That it dissipates in about forty days, as far as the banker is concerned? —A. Not as far as the banker is concerned; but you have in mind that the borrower spends that deposit within forty days?

Q. Exactly.—A. Yes. I should think that might easily be the case. But then, of course, what he spends he spends in modern practice by giving cheques on his account.

Q. Oh, yes.—A. So that from the banker's point of view, it is just a shift from one deposit account to another.

Q. The government supports the banker in his desire to profit by his discovery of the law of human chance—and that is a discovery—notwithstanding that he is the trustee of his depositors funds? I do not suggest that there is anything wrong in that. I am merely painting the picture.—A. That the business of banking, in other words, is authorized by law?

Q. Authorized by law; although prior to banking, such an act considered from the point of view of morals or ethics, would be regarded as wrong; and in certain fields of business it is still regarded as wrong to tamper with the trust funds of your trustor?—A. I thought you were supposed to preserve them.

Q. Exactly, preserve them.—A. In accordance with whatever laws may rule that particular activity.

By Mr. Cleaver:

Q. By authorized trustee investment?—A. Yes.

Mr. Taylor: There is a subtle difference.

By Mr. Taylor:

Q. The banker, while a trustee, is allowed to play on the value of his trust. —A. I was not aware of that.

Mr. Cleaver: Just a minute. I do not think that ought to get on the record.

Mr. Taylor: Just a minute.

Mr. Cleaver: A personal representative or executor does the same thing.

Mr. McGeer: He does not do any such thing.

The Chairman: Will you allow Mr. Taylor to proceed?

Mr. Taylor: The governor will answer me. If I am advancing a wrong idea, it will be up to him to say so.

Hon. Mr. Stevens: What is the answer, Mr. Taylor?

[Mr. Graham Ford Towers.]

Mr. TAYLOR: Before we get into the loan business—

Mr. MARTIN: Mr. Taylor, might I interrupt,—?

Hon. Mr. STEVENS: You obtained no answer.

Mr. TAYLOR: You will get your chance later.

Mr. MARTIN: I wanted to help you.

Mr. TOWERS: I think it was suggested that there was not an answer to the question.

Mr. TAYLOR: Oh, I see.

Mr. TOWERS: Was it a question, that the banks in some form—?

By Mr. Taylor:

Q. I am trying to show that the necessities of business, the necessities of banking, have introduced changes in the ethical and moral procedure of the people which have been countenanced by law; and this is one of the instances.—A. I cannot follow that, because it does not seem to me a question either of ethics or morals. It seems to me that the people decided that their business would best be served if, instead of carrying around cash in their pockets, they could maintain it in the form of deposits with banks. I suppose that governments all over the world, recognizing that that was the desire of the people, gradually evolved banking law for their protection; and the banking law provides certain restrictions in regard to the character of the loans and investments which banks can make, the laws being directed mostly to forms of safeguarding the people's deposits; and with the unanimous consent of the people and the government, the business of banking proceeds.

Q. Yes; even to the extent of changing ethical ideas?—A. I cannot quite see that.

Q. If we do not get it this time, we will get it a little later.—A. All right.

Q. Before we get into the loan business as the final thing, I submit if it could be imagined that the banker ceased at a particular point to take in fresh deposits, he would find there would be a certain definite rate at which his old deposit would flow out?—A. Speaking of the banking system as a whole or about an individual bank?

Q. Taking banking as it is, and dealing only with deposits and nothing else?—A. Yes. Speaking of the banking system as a whole, I do not know why we should find that the deposits will flow out, even on the assumption that the banking system ceases to expand in the form of loans and investments.

Q. But if you consent to the idea that 10 per cent till money is necessary, then you must also consent to the idea that money, to be brought in in a week's time is also necessary; and money to be brought in in a month's time is also necessary. There must be a rate of flow outwards of deposit moneys.—A. I would say that it is a movement from one deposit account to another; it is not an outward flow. If you assume an outward flow, you must assume that people are taking the money out in legal tender cash and keeping it out. That is the element.

Q. Of course, you are very definitely retaining the idea that this is a business which is running, and only by virtue of the fact that it is running do we have this situation; but in the general operation of the banking business, the feature which I bring out must be in evidence. It must be because these things are happening; the banker is able to understand what will happen in the future. I say that if a man deposits the sum of $1,000 in the bank, taking that deposit as it exists, the banker would say, "Well, you as a unit of many thousand-dollar depositors must have $100 retained in my till for your requirements. But next week I sense the fact that you are coming back for another hundred and in a month's time I sense the fact that you are coming back for $200 and so on and so on."—A. Yes, but Mr. Taylor, the point then would be: Does he sense

the fact that that man is going to withdraw $100 in legal tender cash?

Q. Exactly.—A. And that that legal tender cash is going to be kept by that man or by the person to whom he pays it.

Q. I am not contemplating the question of what the man will do with it; I am dealing with the relationship existing between the deposit— —A. I do not think one can eliminate the question of what he will do with it, because I think it is a vital question. I do come back to the point that unless people decide that they are going to keep cash in their pockets or in their mattresses—

Q. Let us assume they do that.—A. In that case it is possible for the outflow of deposits to take place, for those deposits to be changed for legal tender cash which would necessitate a realization of banking assets in one form or another to provide for that extra cash.

Q. We are coming to that. Empirically, then, that banker was learning how to anticipate the demands of his deposit clients by that outflow?—A. By the outflow of deposits.

Q. And so fit himself to safely loan money on his studied findings. It is on the basis of this empiric that the bank is able to loan money out, because they have loaned out money based on his deposits for three years— —A. I think there is a serious mistake there, and it arises from the original one of the assumption of 10 per cent cash and 90 per cent idle funds. So long as that basic thought remains I think we shall be making mistakes along the line. In connection with your last remark, I think you will find that as the banker loans money, if it is an addition to his existing loans, in so doing he increases his deposit liabilities.

Q. Yes; but there was a time—and I assume you must know it—when frequently a bank in making a loan paid the amount in cash. You recognize that, do you not? Away back in the 80's that was done.—A. Then, of course, his loaning activities would be limited to the amount of his loan capital.

Q. At that time there was 23-26 per cent till money reserve, and payments were made definitely in cash.—A. Not entirely. On the assumption—

Q. Almost entirely as my knowledge goes of banking in those times.—A. I think it was possible to operate on 23 per cent or 25 per cent; 75 per cent of his assets therefore must have been represented by loans and investments.

Q. Agreed.—A. So that he had not been called upon to pay out the total amount of his loans and investments in cash.

Q. I am not suggesting that. I am suggesting that when he paid out his cash he fully recognized there was some of his cash which could only be paid out for a week, some of it could be paid out for three weeks, some of it for six weeks and some of it for six months, and some actually for a year; and that the bank accounts, the bank statements of cash through banks in the 80's and 90's and at the end of the last century would show those very facts.

Mr. Kinley: Did he receive deposits when they were 23 per cent?

Mr. Taylor: Yes, of course; but allow me to finish—

Mr. Towers: In that case, the only difference between the present system and the system as it worked at that time would be that the cash reserve which he thought it desirable to carry was 25 per cent instead of 10. In other words, there was no difference in the theory or procedure of operating, but only a difference in the practice with respect to cash reserves.

By Mr. Taylor:

Q. But it would be a fact that when a banker experienced a loss in any of his loans granted, he would immediately be compelled to call up other loans and translate them into cash in order to hedge his bet.—A. I do not understand that, Mr. Taylor.

Mr. Cleaver: Are you not simply saying in these times—

[Mr. Graham Ford Towers.]

The CHAIRMAN: Mr. Taylor does not want to be interrupted.

Mr. TAYLOR: I will discuss it very shortly. It is in these times also. The moment a banker makes a loss he must preserve his till moneys, he must preserve his relation to his depositors, and it becomes necessary for him to make up his losses by calling in his loans.

Mr. TOWERS: No, the one thing has no bearing on the other.

By Mr. Taylor:

Q. What do you suggest he does?—A. If he has been carrying as an asset a loan of $1,000 and that loan turns out to be a total loss, the $1,000 is a charge against his profits; it does not disturb the amount of his other loans.

Q. Then you would contend that there is no necessity for a banker in any depression to call in his loans?—A. There might be two forms of necessity which would lead him to do so. One is based on his business judgment in respect to the safety of the loans which might be affected by the conditions of the times. If he has cause to question the safety, he will try to collect them. The second would relate to the shortage of cash in the banking system as a whole, a shortage which has taken place on occasion in the past in various countries, before modern means of dealing with the situation were evolved, but which so far as Canada is concerned, need not arise in the future.

Q. But it did arise in Canada, and it arose elsewhere before these modern ideas— —A. It arose in Canada to a certain extent between 1930 and 1932, for reasons which I have tried to put on the record in discussing our system at that time. I can go into it again if necessary, but the place in the record which I can refer to in a moment when we find the page, may serve to answer that question.

Q. Does it not arise from the attempt of depositors to withdraw their cash deposits, for instance?—A. That had practically no effect in Canada, speaking of the banking system as a whole, at any time during the depression. If there was any withdrawal in cash, and that withdrawal remained in the hands of the depositors in cash, one would expect to see evidence of it in the figures of the active circulation. There may have been a few instances, but certainly it was not enough to be able to look at the figures of active circulation and say it was a factor of importance.

Q. Then, presuming a local calamity developed in any place, would that not affect the bank and its desire to recall its loans?—A. You mean that in a certain area conditions became so bad that bank loans which had been made in that area turned out to be bad loans?

Q. No, I am looking at it in this way: when a banker makes a bad loan in a certain district, he is compelled in other districts to— —A. No, he will never be compelled by reason of bad loans in one district to call his loans in another district.

Q. Not under the Bank of Canada governorship to-day, but I am talking to conditions prior to the introduction of the Bank of Canada.—A. No, even then he would not be compelled to collect his loans in one district by reason of losses anywhere.

Q. Then, what do you say develops a run in any district?—A. Lack of confidence on the part of the people. That is quite a different thing from a bank calling in its loans.

Q. Don't you think it arises in these circumstances from the actions of the bank in times of calamity or depression?—A. The actions of the bank in time of calamity or depression inspire doubt, and therefore lead to a run?

Q. Develop doubt, yes.—A. If it is common belief in the area concerned that banks are making heavy losses, losses which will cast doubt on their solvency, yes, that would inspire a run, as we have seen on various occasions around the world.

Q. Actually it has been so in Canada?—A. Canada definitely has not been faced in any material degree with those conditions.

Q. Well, it has been faced with those conditions. I know conditions in Vancouver which represented a minor run, and you are very aware of them too. —A. There have been minor runs in Canadian history, yes; but they have never gone very far.

Q. Since the introduction of a central bank that feature has been largely done away with?—A. The existence of a central bank would not necessarily inspire the people with confidence in a commercial banking system. The conduct of the commercial banking system is what will do that. But the people would doubtless know that so long as any banking system is well conducted and the banks remain solvent there would be no difficulty whatever in those banks obtaining the necessary proportion of cash.

Q. One of the features of the Bank of Canada is that it holds on deposit five per cent of the deposit obligations of the chartered banks?—A. In fact, the deposits of the chartered banks with the Bank of Canada and their holdings of Bank of Canada notes are in excess of five per cent.

Q. Legally it is five per cent?—A. Legally the amount of cash reserves which the chartered banks must maintain is five per cent of Canadian deposits, but that five per cent may be held either in the form of Bank of Canada notes or in the form of chartered bank deposits, at the Bank of Canada.

Q. That is, legal tender?—A. The Bank of Canada notes are legal tender, and deposits with us can be changed into notes and so into legal tender at any moment.

Q. But they are currency, are they not; in any case?—A. Which, the deposits themselves?

Q. The deposits with you?—A. I would say they are just those words, they are deposits with us which can be exchanged for our currency which is legal tender at any moment.

By Mr. Jaques:

Q. What form do the other assets take?—A. They consist of deposits with us.

Q. In what form?—A. In the same way as you may have a deposit with a chartered bank. They are a credit on our books.

By Mr. Taylor:

Q. As a matter of fact that 10 per cent is a portion of the 10 per cent till money?—A. It is a portion of the 10 per cent cash reserve. We have been speaking about till money, which is one way of putting it, but perhaps cash reserves is a more all-embracing term.

Q. Surely you do not agree with the position that the 10 per cent reserves was till money, till money was not all of that 10 per cent, it was only a small portion of it?—A. That is true. I was thinking, Mr. Taylor, of using the term "till money" as an alternative to cash.

Mr. Taylor: We will discuss that afterwards if it is not approved of by the committee.

By Mr. McGeer:

Q. That is a misstatement of fact. Till money is only one part of reserves, and in our country it is a very different thing from what it is in the old country?—A. Actually the bank notes in a bank's possession are a higher proportion of the total reserves in England, you see, than they are here.

Q. And our modern bank notes that function as till money are not the same as you have in England at all.

Mr. Taylor: Please let me go on.

[Mr. Graham Ford Towers.]

Mr. TOWERS: I might just refer to that, chartered bank notes are not till money so far as banks are concerned—

Mr. McGEER: Used for till money purposes.

Mr. TOWERS: To the extent that they are in the hands of the public they are a circulating medium but they cannot be used by banks as till money because they are not assets of the bank itself.

By Mr. McGeer:

Q. No. But in England, as I understand the use of the term till money, till money is money that the banks have on hand to cash cheques and hand out as the medium of exchange for the carrying on of business?—A. In England it is Bank of England notes.

Mr. McGEER: Or, silver coin.

Mr. TOWERS: Or silver coin to some extent.

By Mr. McGeer:

Q. And in Canada the money that we use here is Bank of Canada notes plus merchant bank notes. For instance, if I go to cash a cheque to get pocket-money, whatever bank I get it at, I will invariably get most of that bank's; I mean, in the denominations above ones or twos?—A. And so long as they have note issuing powers.

By Mr. Taylor:

Q. Of course, it is quite obvious that the situation cannot be the same in England because under the provisions applicable to the Bank of England note issues are not permitted within a radius of sixty miles of London; is that not so? —A. I do not recall the exact provisions, but that is true. Some of the Scottish banks still have certain note issues.

Q. As long as they do not have a branch in London?—A. Exactly.

Q. What is your opinion and what is your discovered point at which a run might develop on any bank in Canada?—A. Oh, there is a question of human psychology involved, Mr. Taylor.

Q. Is it conceivable under any circumstances that a run would call up 100 per cent of the deposits?—A. Not in practice, I do not think, no.

Q. It is extremely unlikely that they would even call up 50 per cent. I am making that as an assertion. The law of human chance works again and not 100 per cent, probably not 50 per cent of the people who are depositors in a bank would consider the advisability of rushing to the bank to withdraw their deposits? Am I correct?

Mr. JAQUES: In cash.

Mr. TAYLOR: It does not matter. Withdraw.

Mr. JAQUES: That is the whole point.

Mr. TOWERS: I think the situation is really this: That if the fears are unjustified the run will soon subside. If they are justified, it will not get as far as you mention.

By Mr. Taylor:

Q. Then it is in that position that the Bank of Canada inserts itself?—A. In what form do you mean?

Q. By recognizing the withdrawal, the lessening of the deposit funds of the chartered banks, it inserts itself to restore the situation?—A. I would say that the major factor and the first step is the solvency of the banking system which is protected by the various provisions of the Bank Act and by the inspection which is conducted by the Department of Finance, and that if the banking system

is solvent then you must assume that if a run should occur it would be an unjustified run. In those circumstances it would certainly be possible for the banks to obtain all the cash that is required to meet those, shall I say, erroneous or ill-advised demands which were caused by misapprehension of the real situation.

Q. Has the Bank of Canada discovered any alternate method of restoring equilibrium and allaying suspicion and public concern other than the purchase of securities?—A. Under what circumstances, Mr. Taylor?

Q. In the circumstances where banks might be unduly set upon by the depositors?—A. I would say in those circumstances that the banks would very probably be rediscounting.

Q. That they themselves would initiate some procedure to adjust their condition?—A. Yes, exactly.

By Mr. McGeer:

Q. You mean by "rediscounting" that they would lend to the banks the money they needed?—A. Government or other securities.

Mr. Taylor: Please, Mr. McGeer, I will soon be finished and then we can discuss this particular item.

Mr. McGeer: Yes, but I wanted to clear—

Mr. Taylor: That is the point. We cannot get any consecutive idea of what I am trying to bring out. I am perfectly willing to stop if you have any idea to develop, but I am trying to develop something now. I may not do it successfully, but please let me try.

By Mr. Taylor:

Q. In effect, then, the 5 per cent deposits with the Bank of Canada constitute virtually, what shall I say, an alcohol thermometer to indicate the general steady level of business throughout the country? Might that be said?—A. I cannot quite follow it along those lines.

Q. What do you watch in order to discover the necessity for infusing fresh cash into the system or withdrawing it? What is your guide per se?—A. I would say that the guides are many but the final interpretation is the difficult point. For example, if the volume of production is increasing and the need for commercial loans is increasing, there is prima facie evidence that perhaps the amount of cash should be increased. If you arrive at circumstances where the price level is apparently getting out of hand, where speculative elements are introducing themselves into the situation, where the expansion of credit seems to be going beyond the consequent production needs of the country, there would be certain warnings there which would tend to make one feel that cash should be reduced. Or in other circumstances, if the demand for money was relatively low—that is, the demand for banking accommodation in one form or another,—or if interest rates were also very low in the security market, then you might assume that the supply of money was so ample that any borrowing needs could be filled from the existing supply and that there was no commercial reason or reason of general public interest why it should be increased.

Q. In any case, you do realize that neither the Bank of Canada nor the merchant banks can force the people to accept what they do not want or more than they are content to have of what they do want?—A. That is true.

Mr. Kinley: That is the whole thing.

Mr. Towers: Perhaps I should qualify that by saying this, that you are speaking there, I think, specifically of commercial loans.

Mr. Taylor: Yes.

Mr. Towers: It is the case that if governments are adding to their debts or, even eliminating that, if the cash of chartered banks is being increased to

[Mr. Graham Ford Towers.]

an extent which makes them increase their investments, then you will find that additional deposits are from a certain point of view being forced into the hands of the people.

By Mr. Taylor:

Q. Forced into the hands of the people?—A. Yes.

Q. Did you say "forced"?—A. "Forced" in this sense—but perhaps I had better divide the question into two sections. One would be a case where government debt was not increasing, but where banks were increasing their holdings of government obligations. In that case you would find that public deposits were increasing; that is, the deposits of the public in general. One could hardly say they were forced because it must imply a voluntary sale of government securities by certain individuals to certain banks. The second case is where, during a period of government deficits, additional amounts of government securities are being sold to the banks. The banks are buying up at the time various security loans. Then you have a situation where deposits are increasing. Even there I suppose I was ill-advised in using the word "forced"; because what is happening is that the government is spending that money and in the process placing additional deposits in the hands of the people.

Q. Then, under those circumstances, I can declare that the Bank of Canada cannot use the merchant banks' cash deposits under any present Canadian statute to enlarge the currency field?—A. Neither we nor the commercial banks can use someone else's deposits.

Q. Exactly.—A. Or do anything like that.

Q. Exactly.—A. But we can increase the amount of the chartered banks' deposits with us.

Q. Exactly. That, in a sense, is using. I did not mean actually taking the money and using it. I mean to make that the basis for use. When it does so, it meets only—the Bank of Canada and the merchant banks meet only the temporary economic need which economic practices of the day show to be necessary and acceptable. That is a fair statement, is it not?—A. I have difficulty in answering that question because I do not quite understand it.

Q. Well, your purpose as a bank is merely to adjust the needs of business throughout the country and to preserve the general level of acceptance by the people of loans and other business needs?—A. I think our business, so far as we can properly perform it, is to see that the volume of medium of payment that is in our country, mainly deposits, is adjusted in accordance with public interest.

Q. In other words, under present conditions, it is impossible to feed millions of dollars into our currency without preparing the way by acceptable and enabling legislation and preparing popular opinion and desire?—A. I do not think that is the case. I mean, the facts of the last five years are hardly in accordance with that.

Q. Well, that is only $450,000,000.—A. $450,000,000 may seem small to you, but it seems pretty large to me.

Q. I was thinking of astronomical figures.—A. Yes. I think it is a question of proportion.

The CHAIRMAN: It is one o'clock.

Mr. TOWERS: That is about a 25 per cent increase.

The CHAIRMAN: What is the pleasure of the committee as to adjourning?

Mr. CLEAVER: Four o'clock.

Mr. TAYLOR: I have to be at a committee meeting at two o'clock, which is quite important.

The CHAIRMAN: Could you be here at four o'clock?

Mr. TAYLOR: I doubt it very much.

Mr. McGeer: I should like to go on this afternoon.

The Chairman: We want to finish with Mr. Taylor if we can.

Mr. McGeer: There is no reason why someone else should not go on. We have a lot of work before this committee yet.

Mr. Taylor: I have finished my questions on the first phase.

The Chairman: Then Mr. Kinley goes on next. He is next in line. We shall meet this afternoon at four o'clock and it will be in the railway room.

The committee adjourned at 1.02 p.m., to meet again at 4 p.m.

AFTERNOON SESSION

Room 277.

The committee resumed at 4 o'clock.

The Chairman: Can you see a quorum?

Mr. Kinley: Yes.

Hon. Mr. Stevens: A very good quorum.

The Chairman: Mr. Taylor, proceed.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

By Mr. Taylor:

Q. Mr. Chairman, it is very difficult to keep the sequence of these questions, as you can readily understand. I will have to remove from what I was going to say now what appeared earlier this morning. Mr. Towers, many depositors on current account carry very large sums on credit as a necessary aid to their business practice?—A. Yes.

Q. That is so, is it not? The relative outflow of deposit funds arising out of Bank of Canada purchase of securities is rapid and approximates loan money in its rate of dissipation. I think I brought that out this morning, but I should like to— —A. Well, I do not understand the reference to the rate of outflow of deposit funds, unless perhaps you have in mind the turnover that takes place?

Q. No, I have in mind the individual items, not the whole mass. You are viewing the thing in the mass.—A. I thought it was individually, the individual items of the turnover, which was the move between accounts and spending. I was not visualizing the outflow of deposits, because that means, other things being equal, a reduction in the total on deposit through people withdrawing them. That would be the interpretation I would give to the "outflow."

Q. Withdrawing them in actual cash funds, you mean?—A. Yes.

Q. In the other case they merely transfer them from one account to the other?—A. As spending takes place, yes.

Q. But there is a new element that enters into the whole transaction by reason of the transfer; the initial withdrawal is the thing which I am referring to now, and that is comparatively rapid as against the depositor's funds in ordinary business.—A. The depositor's funds in ordinary business are active in their degree of velocity, as the business spends and collects from customers and spends again.

Q. But there is always a reserve which is scarcely ever touched?—A. You mean the minimum deposit balance of a concern such as that is always fairly high?

[Mr. Graham Ford Towers.]

Q. Yes.—A. It may be, yes.

Q. What change in banking practice have the merchant banks adopted following the establishment of the Bank of Canada?—A. Apart from routine matters such as, for example, having the Bank of Canada act as a central clearing house, I do not recall any change of great importance. There is, of course, the change arising from the law to reduce the limit of their authority to issue notes.

Q. Yes, but has money on short call increased or decreased?—A. In Canada?

Q. Yes.—A. I would have to look up those figures.

Q. Would it happen as a result of the change brought about by the introduction of the central bank?—A. No, it would not happen as a result of the change.

Q. It would not?—A. The extent to which it took place would be dependent on factors in security markets. That would be the reason.

Q. The place of call money was not taken by treasury bills, for instance? —A. No, because the call money market in Canada has never been regarded as a highly liquid market. I think that the place of New York call loans has, to quite an extent, been taken by treasury bills.

Q. The Caandian banks did quite a little business in the New York call money market, did not they?—A. They did, and that has very largely disappeared. To say, as yet, that it has permanently disappeared and its place been permanently taken by treasury bills would be a bit premature. It so happens that during the last few years the amount of money which you could loan on call in New York has been extremely limited and the rates obtainable have been very low; but it is the case that the second line reserves which the banks used to have in the form of call loans in New York in respect of Canadian business as distinct from their foreign activities—are lon longer carried in any quantity. But the banks now have a local second line reserve in the form of dominion government treasury bills.

Q. The Bank of Canada was first established as a private bank, was it not?—A. When the bank commenced operations its capital stock was owned by individuals around the country, yes.

Q. At what date was it that the change was effected to a government-owned institution?—A. There were two changes. I think I will have to supply the date on which the act became effective later on. With regard to the first change, it involved an issue of $5,100,000 additional capital stock of the Bank of Canada which was taken up by the Minister of Finance on behalf of the Dominion Government. At a later date, $5,000,000 stock which had been in the hands of individuals in Canada was retired. At the same time $100,000 of stock held by the Government was retired, leaving the only capital stock issue an amount of $5,000,000, all of which is owned by the Government. The dates of those two changes I can put in later on.

Hon. Mr. STEVENS: Roughly speaking, 1936 and 1938?

Mr. TOWERS: Yes.

By Mr. Taylor:

Q. How completely has the directorate become quite respresentative of the new status of the bank?—A. All appointments to the position of director will in future be made by the Governor in Council.

Q. Has any change been already made?—A. Of our directors, who are now eleven in number, my recollection is that six are government appointees.

Q. Six now are government appointees?—A. Speaking from memory—I should like to check this up—that is right. Six are government appointees. Five are the directors who were originally elected by the shareholders. The act provides that those directors continue to serve until the expiration of the term for which they were elected.

Q. Has there been provided a time sufficient to enable you to answer the question whether you have discovered any weakening of the—what shall I say?—experience or intelligence applied to the affairs of the bank by its translation from a private to a publicly owned institution?—A. Well—

Hon. Mr. STEVENS: Dangerous ground.

Mr. TOWERS: I think I can only answer that by saying that I hope that under any circumstances people who are connected with public institutions would endeavour to do their best to serve the public interest.

By Mr. Taylor:

Q. That is very clever. Is there any fundamental reason why the high level of intelligence applied to the affairs of the merchant banks should be weakened by their becoming an arm of the people, government-owned under the supervision of the Bank of Canada?—A. I wonder if I should be called upon to express an opinion upon that?

The CHAIRMAN: I think not.

By Mr. Taylor:

Q. I am suggesting this on the strength of what you have already discovered, but you appear not to have had sufficient time to make a definite declaration. Am I right in that?—A. I would not say offhand, no.

The CHAIRMAN: May I suggest it is hardly fair to question the governor along those lines. I do not think it is a proper question to put to the governor.

Mr. TOWERS: It really is a question as to whether I think it desirable that the banks should be nationalized. It seems to me that is a question of government policy on which I should not express an opinion.

By Mr. Taylor:

Q. That is the point I wanted to lead up to. I shall wait now in case anyone wishes to ask any questions.

Hon. Mr. STEVENS: When you are through we have some to ask.

The CHAIRMAN: Proceed, Mr. Taylor.

Mr. TAYLOR: All right, then.

Mr. CLEAVER: I have one question to ask, Mr. Chairman, arising out of the examination this morning. Mr. Taylor called the attention of the governor of the bank to the fact that in earlier English times, the eighties and the nineties, the bank reserves at that time were about 25 per cent as against the present rate of 5 to 10 per cent. I interrupted at that time, but I was not permitted to put my question. I suggest to you the reason for the higher rate of cash reserves of the banks at that time was brought about by the fact that the customers of the banks had not got into the habit of using cheques to the same extent that they do now, and kept more cash in their tills.

Mr. TOWERS: And therefore that the movement of cash in and out was likely to be proportionately larger?

By Mr. Cleaver:

Q. Yes.—A. Incidentally, I should say I accepted Mr. Taylor's figure in regard to the cash ratio of that time, without refreshing my memory by looking it up. But, accepting these figures, I suppose a fair assumption would be that the greater use of cash provided wider swings and so made the banks feel they should keep a higher ratio.

Q. So far as you know that would be the only reason why it would be necessary for the banks at that time to keep a 25 per cent cash reserve as opposed to the present rate of 5 to 10 per cent?—A. If the banks then operating

in England felt that on the basis of the gold standard which was in effect, substantial movements of money could take place out of their markets—and on a gold standard basis it could take the form of withdrawal of deposits for the purchase and export of gold, and on that basis it would require the utilization of the banks' cash—if they felt that was likely to take place, there would be an argument there for a higher ratio of cash reserves. Although, just speaking from memory, I do not suggest that they are necessarily the reasons, because in those days any such movements of capital from point to point as we see now were simply not thought of.

Mr. Cleaver: That is all thank you.

By Mr. Taylor:

Q. I have noticed a constant confusion in the use of terms throughout these proceedings where money and wealth were referred to. I make the suggestion to you that money in inaction is wealth in metamorphosis; is that a fair description?—A. Well—

Q. Perhaps before you say anything I should ask a second question?—A. I wish I could understand more about what that meant.

Q. Of course, you know the metamorphosis that is undergone in the business of life from one form to another, and I suggest that this is a condition of changing wealth from one form to another.

The Chairman: Or, a means of changing wealth.

Mr. Taylor: That the actual money has never lost its control either of the thing that it has had or the thing which it is going to have; as a token it is an active token; it is a token which may represent wealth at a certain time.

The Chairman: Yes, a claim on wealth.

Mr. Towers: It is a claim on wealth arising from the fact that a medium of exchange has certain services to perform and it has a certain service value. It is never wealth in itself so long as people are able or willing to pay the cost of providing themselves with a medium of exchange. Then it is possible to take money and purchase wealth in the form of goods because you find that a previous owner is willing to take money for them. But I say it is only a medium of exchange, only a system by which barter is avoided. I do not see it related to any form to wealth in itself.

By Mr. Taylor:

Q. There is a difference between your statement and mine. You insist that it is only a medium of exchange; that it is not wealth, it is not in itself intrinsic value or meant to be; but it does tie itself up to the thing that it wants to get rid of, or the owner got rid of in order to receive the money; or to the thing which the owner is going to buy with the money; so that in the transfer it actually has all the power of the wealth that was and the wealth that will be.—A. I wonder if that is just another way of saying it is a medium of exchange.

Q. Well, I agree that in one sense that may be so, but I give it a higher value. As a medium of exchange you might use anything.—A. I think, of course, people have used various things. Perhaps they find the present medium of exchange is more convenient than the shells, buffalo skins and the casks of rum that were at one time used for the purpose.

Hon. Mr. Stevens: Or beer.

Mr. Towers: Or beer.

By Mr. Taylor:

Q. But you see these casks of rum only lasted a very short time?—A. That was the unfortunate part of it.

Q. Part of the medium of exchange to-day lasts quite a long while. For instance, the sheep shearers in Africa received haricot beans which they carried for a year, they received them for shearing sheep, and when the sheep shearing finished they were required to exchange them for the coinage of the country?—A. Yes

Q. Mr. Towers, you have been very persistent in showing that the banker does not loan his clients' money; he loans on credits, loans deposits on the strength of these clients' money against security; am I correct in saying that?—A. I hope I did not put it that way. The banker is in essence employing his deposits in loans and investments. If he adds to his loans and investments he will at the same time increase his deposit liability, so you may say he is a go-between. His liabilities in the form of deposits must be balanced by assets in the form of loans and investments.

Q. Yes?—A. I did raise the question of terminology when it was suggested that the banker lent his deposits; you can't lend your liabilities. But he has assets equal, at least equal, to his deposits, and it is the existence of the deposits and the fact that they are allowed to remain as deposits rather than being demanded in cash which permits him to have so many loans invested.

Q. Is that not saying roughly the same thing in a more careful way?

Hon. Mr. STEVENS: It is the Governor's answer.

Mr. TAYLOR: Yes, I agree.

By Mr. Taylor:

Q. What then is the function of a commercial bank? Is it to borrow money and loan it out at an advanced price?—A. Yes.

Q. Then what do you think of this position established by a banker who was at one time a very celebrated general manager of a large corporate bank. A customer went in to obtain from him the sum of five thousand pounds and the general manager had been very worried by reason of many things associated with the country's political life and he said, "Mr. Banker, what do you assume the bank was established for?" and Mr. Banker suddenly questioned like that said, "Oh I would say that it is to receive money at 3 per cent and loan it out at 8 per cent." "Nothing of the kind, sir; nothing of the kind. Banks are established to afford a ready and easy facility for the exchange of large sums of money." Would you comment on that, Mr. Towers?—A. I think that being set up in the first instance to provide banking facilities, the first consideration is the making of loans and investments. If they make loans and investments on a substantial scale they will have substantial deposits. These deposits will provide the medium of exchange for the people and then of course it is perfectly true that the function which the banks perform in handling cheques to be used for a major portion of the commercial transactions of the country is an extremely important service.

Q. That is not very much carried on in Canada?—A. Enormously.

Q. Well then, it must be a very important part of the bank's business?—A. It is.

Q. At any rate, in the loan business there is very little range of interest in the charge by the banks on the classes of loans granted, the rates charged by the banks are roughly the same within a very small range to one customer as to another; am I correct?—A. Certain classes of loans command lower interest rates. I think certain classes of loans are made at $3\frac{1}{2}$ per cent. That is my recollection of the cost of loans against grain in terminal elevators. I think loans against Dominion government bonds may to a certain extent be made at 4 per cent, with first class commercial loans probably 5 per cent; run of mine loans of the small variety where the cost of the operation is relatively high in relation to the total amount involved are probably 6 per cent. That is the extent of the range so far as I am aware.

[**Mr. Graham Ford Towers.**]

By Mr. Cleaver:

Q. How about municipal loans?—A. Municipal and provincial I was not speaking of, because they are all different rates further complicated by the fact that an arrangement may have been provided for some special rate, credit on balances and various funds which may be carried, and various other complicated arrangements that I would not know how to show you except by looking at each case.

By Mr. Taylor:

Q. I suggest then that sufficient experience has now been gained in borrowing to place all loans on an insurance basis against loss and charge not interest but insurance premiums plus operating charges.—A. I am sorry, I have seen no evidence of that.

Q. You have seen no evidence of that? Do you see any reason why it should not be?—A. Yes, I do.

Q. Will you explain, please?—A. I think to put it on an insurance basis you would have to know first of all prospective business conditions over a range of years in all lines of industry.

Q. But I am suggesting to you that experience has already been gained, enough to make that possible.—A. That means one would have to make a forecast of political developments in Europe for the next five years. I could not do that.

Mr. TAYLOR: Lloyds do it in the form of insurance but not interest.

Hon. Mr. STEVENS: Well, look at their rates on war risks right to-day.

Mr. TOWERS: I do not think there is an analogy there. I would be surprised if I could enter into a contract with Lloyds to assume war risks over a period of the next five years at current rates. I do not think it could be done.

Hon. Mr. STEVENS: Lloyds' rates have varied as much as 200 per cent in the last six months.

By Mr. Taylor:

Q. That is carrying us away from the particular question?—A. Yes.

Q. But you think that there is no reason why the banks should depart from the thing called interest to grant loans on the thing called insurance?—A. I think they are two different concepts, that in so far as interest is concerned it enables them to pay interest in turn to their depositors and to cover their operating expenses and have money left over as earnings on the capital which they have invested; but the insurance factor is one which relates to something additional, that is the losses which occur on bad debts from time to time, which are bound to occur in any good banking system.

Q. Well, they do occur now?—A. And do occur. But those interest earnings must be sufficient to cover other costs which I have mentioned and leave enough over to take care of bad debts. Now, if the world operated without alarms and excursions, and without wars or extraordinary degrees of depression, I do think that experience ought to indicate more or less what the well operated bank should require to provide in the form of protection against losses, but in the world which we have now I think it would be very difficult to make any accurate prognostication as to what losses would be over a period of years.

Q. Of course, it must be conceded that it is done now in the matter of interest?—A. I would say that it is based on that, it is the—what shall I say—the desire of the bank to be able to set aside each year enough for that purpose. If they find that the losses outstrip those expectations they would try to remedy that situation by taking something from their published reserve as was the case during the depression in some cases, or by making further efforts in the direction of operating economy, cutting dividends and so forth.

Q. But they would still cling to the fetish of interest as against insurance against their losses?—A. If the total charge was called insurance instead of interest. A rose by any other name is just as sweet.

Q. Not quite. Banks do loan money without security, do they, Mr. Towers? —A. Yes.

By Mr. Kinley:

Q. Without any security?

The CHAIRMAN: Moral security?

Mr. TOWERS: Moral security, as the chairman observes.

By Mr. Kinley:

Q. Or their knowledge of what the bank possesses?—A. Oh, yes.

The CHAIRMAN: Without collateral.

By Mr. Taylor:

Q. You remember that Pierpont Morgan, at the meetings of the commission after the 1929 crash, made the statement that he would not hesitate to loar a man whom he considered honest $5,000 without security? Do you remember such a statement being made?—A. I do not recall it but I can quite easily conceive that it was made. He, of course, would know something of the business ability of that man, what he was going to use the money for and the prospects of getting it back.

Q. I want to lead you into another field. If that is admitted, is there anything wrong from your point of view as a banker in paying a man's wages before he works?—A. That is, an advance on wages? If the circumstances are appropriate I see nothing wrong in that, and you will find that it does take place in various business concerns on occasions. If a man, for example, has several doctor bills to meet, or something of that kind, he may be able to obtain, sometimes from his employer, sometimes necessarily from other concerns, an advance of that kind.

Q. Business does it also in large undertakings where it provides for payment of interest on money borrowed while the constructional work is going on for which the business is developed, does it not?—A. Yes.

By Hon. Mr. Stevens:

Q. And charges it against capital.—A. Yes.

By Mr. Taylor:

Q. I have asked this question for a special purpose. The honesty and industry of a citizen is a real security in business and in the banker's loaning business?—A. That is correct.

Q. In the economy of the country every citizen constitutes under certain circumstances an unquestioned security?—A. Under certain circumstances, yes.

Q. If he runs out on his country, he is no longer a citizen and he becomes a loss, but as long as he lives he remains, when in the country, a real security for the repayment of all repayable services which his country performs for him. I think that is a reasonable statement.—A. I do not quite understand that "repayable services which his country performs."

Q. That is wages in advance. If a country performs a service to a citizen by giving him wages in advance of his services, the country, taking the citizens as a mass, might reasonably consider that it had an unquestioned security in its citizens?—A. They expect those individuals to whom they have made these advance payments naturally to live and be able to perform the services for which they have received those advances.

[Mr. Graham Ford Towers.]

Q. And in the mass there would be no question about that?—A. I do not quite follow you through there because, of course, the type of thing I thought I had been talking about was the type of advance which is made for a specific need, such as the sort of thing I have mentioned. It did not involve advancing wages a year in advance for no known purpose; it involved something which was caused by specific needs and which bore some relation to what a man could afford to take in that form and pay back.

Q. We will bring it around to that but the answer suits the case. The point I wish to make is that there is no reason why a loan should not be made even to the poorest citizen in order that he might purchase social security because the chances that it would not be paid back are practically negligible even in the case of an otherwise shiftless or dishonest man. I am talking about the mass of the people. The pages of Hansard, as I have said before, are the heaviest gravestones that were ever constructed, but I did bring forward in the house the idea that the social security necessary to every individual could be obtained by a loan granted to each citizen to enable him to purchase social security on the definite understanding, of course, that he was a debtor to his country and would have to pay back that service in one form or another.—A. I do not think a loan should be made to anyone unless there are practical possibilities of his being able to repay it within a reasonable time, because I think a loan of that kind is bad not only for the lender but also bad for the borrower. If those practical possibilities in terms of business do not exist then I think it is far better for both sides to make a gift, if the thing has to be done.

Q. I would suggest that there is no reason why it should be considered a long time if the citizen redeems that within a year.

Mr. Cleaver: Would you give us a concrete instance instead of these hypothetical cases?

Mr. Taylor: It is not hypothetical.

Mr. Towers: I must admit that I am in a bit of a fog; I would be helped if I did know.

By Mr. Taylor:

Q. My suggestion was, Mr. Towers, that it is possible to go to the Bureau of Statistics and discover there that food, clothing and shelter represent a definite percentage of the income of the people of Canada, and that the average income of the people of Canada represents just so much. As a matter of fact, to-day, it represents \$3. The food of the citizens of Canada represents an average of \$1, or $33\frac{1}{3}$ per cent. It varies a little above and a little below, but, taking it roughly, or by and large, that is how it figures out.—A. What is the \$3 and the \$1?

Q. The average citizen is drawing \$3 of which one third must be spent in food.—A. I see.

Q. If that is taken as a general thing throughout the country and the citizen is allowed \$1 for his food, no matter whether he is able to work at \$2 per day or \$1 per day or 50 cents per day, he is able to perform services which will redeem that food money which he has received from his government. Now, that is putting it about as concisely and succinctly as I can put it.—A. For whom does he perform the services?

Q. For anybody that will employ him. The mere fact that a man whose children are now suffering from rickets because he cannot feed them properly receives this money and gives an extra bottle of milk a day to his children, takes more potatoes and bread home to his family, increases the amount of consumption of food, and, in doing so, increases the demand of the producers of primary goods for labour.—A. I think we have come back to the proposition that the things which you mention should be done presumably on the basis of an increase in currency.

Q. No. It would result in a temporary increase in currency, but my suggestion was not to interfere with the currency of the country but to establish for these particular purposes an internal currency tied only to the particular thing which we were dealing with.—A. Well, then, it is an increase in currency but a special kind of currency.

Q. A special kind of currency that could not be applied to anything else. For instance, a currency for the purchase of food would not be used or could not be used under any circumstances for the purchase of clothing. But when we had once established by this means that every individual, no matter where he was, or in what shape he was, sick or well, robust or emaciated, when he was able without question, without anybody's "by your leave," to get the food that he needed for his physical sustenance—when we had established that then we could move from that to the other elements in social security which are limited to food, clothing and shelter.—A. So that the proposition would be for the issue of a number of different kinds of new currency each for specific purposes, and that would be expected to raise the general standard of living in the country?

Q. One internal currency tied, first, to food, then to food and clothing, after the food had been thoroughly established in the economy of the country; then after clothing to shelter, each of them based on actuarial findings. My whole difficulty in the study of these things is—and I come to it later on—that business schemes how to advance itself, but the government is never allowed to do anything to correct the errors which business is always bringing about. Now, of course, I know it will be said that that is not so, business is very honest and very just, but business has no more concern for government than it has for those with whom it has no transactions at all, and I suggest that it is becoming increasingly necessary for us to consider a systematic way of providing social security for our people.

Mr. Cleaver: Are you open for questions, Mr. Taylor?

Mr. Taylor: Yes.

Mr. Towers: If I may just interject one thing there. I do not think I could add anything to the replies which we have already made in regard to financing things of that kind through the issue of additional currency, whether it is of a special variety tied only to food and clothing, or not. Broadly speaking, the same thoughts would apply whether it was special or whether it was not. As I have said before, that is not in any way an expression of opinion as to whether or not there is a desirability in respect to people having more of these things, but I think your question related to a monetary method of accomplishing the desired result.

By Mr. Taylor:

Q. Not entirely.—A. On the desirability of a higher standard of living we will all agree. On the possibility of achieving a higher standard of living by means of the issue of additional currency, presumably we will not agree. On that point I think that the answers we have already made to questions represent any views we could express on the matter.

Q. I submit they do not exactly do that, because the moment you tie your internal currency to one type of usefulness you eliminate from it a great many of the weaknesses which you suggest are inherent in a forced flooding of extra currency into the market.—A. I cannot see how it does that, but perhaps—

Q. Well, I will put it this way. I contend that where we have up to the present always talked about the law of supply and demand, that day has gone for those elements which lie in social security. To-day it is the law of demand and supply, and we are preventing our poor people from demanding what is absolutely necessary for them. It is not a question of supply

[Mr. Graham Ford Towers.]

and demand. We can supply them with all the food they need, of every kind, but they are not in a position to demand it and nobody knows how to supply it to them, and your present currency and your present business practices do not afford any opportunity of solving the situation.—A. I think that the only solution which is desirable to visualize, the solution which one would hope for, is that the people you mention should be able to engage in gainful employment or in a greater degree of gainful employment than they now are able to obtain, so that they would have things to exchange with the people who would be furnishing them with the food you mention.

Q. That is precisely what would happen.—A. By putting the people who are not in gainful employment in possession of additional currency. I am speaking now only of the monetary end of it, not of any question of payment of relief, although of course I should emphasize that. But trying to find a solution by creating new paper money to place in the hands of these people is not what they need from the point of view of a long term solution. They need gainful employment.

Q. That is precisely what would eventuate from this introduction of social security money. That is precisely what would eventuate. Your primary producers would be called upon to produce more food, more milk, more cheese, more butter, more potatoes and more bread; consequently, they would employ more labour, and the very people not now able to obtain employment would receive employment. They would be urged to go into employment. There would be a call for those people who to-day are not able to find anyone who wants them.—A. That is exactly the question which did come up before, and I should like to mention the section of the record in which it appears. I could not add anything to the reply there.

Mr. White: Mr. Taylor, I understood you to propose that governments should issue food purchasing currency—a currency that could be used for the purchase of food?

Mr. Taylor: Only.

Mr. White: Quite so. When a poor person gets one dollar or ten dollars of such currency, he goes to his grocer, and he buys one dollar's worth or ten dollar's worth of food. What is the grocer going to do with this currency that will buy food only?

Mr. Taylor: That is very easy. Every grocer knows his overhead costs or should know them; and based on his capital employed, it would be a simple matter to discover just how much of the money which he has received from the individual spending security money with him should be translated into the currency of the country. The balance he deposits in his security money account and it goes to the primary producer. The primary producer gets it and he in turn has to have currency of the country, and applies for it in the ordinary way; and it is declared actuarially as to what percentage of his money he shall receive. The balance—

Mr. White: This food purchasing currency can be deposited in a bank?

Mr. Taylor: Exactly.

Mr. White: Why not use the ordinary legal tender? Where is the distinction?

Mr. Taylor: The distinction is quite definite. If you will follow the thing through, you will see it cannot be done by giving out legal tender. You would place inefficient, inconsiderate people in a position where they would be unable to get even the food for which you have provided them with the wherewithal; but if the internal currency was tied only to foods which they must consume, they are bound to consume that or the money with which they have been provided becomes of no value. It is cancelled out. When the money gets back to the primary producer—he may have produced carrots and the ruling

rate for carrots may be 76 over a period of five years; but the carrot producers have determined that the proper price for carrots is 80 and the government has accepted that proper price of 80 for the carrots produced. They pay or they translate the security money of the primary producer into the currency of the realm at a price as 76 is to 80; and in that way you do away with all the subventions to wheat, the subventions to fishermen, the subventions to everybody. At the same time you would do away with all relief as such.

Mr. WHITE: By fixing prices.

Mr. TUCKER: Would not what you have in mind be attained by what the government is now doing in regard to butter? They give poor people vouchers with which they can go to the store and get butter; then the storekeeper can take those vouchers to the government and get them redeemed in legal tender currency. In that way you may be sure that they spend it on butter, but you do not introduce a complicated system that would take an army of bookkeepers to keep track of.

Mr. TAYLOR: There is nothing complicated about that system.

Mr. WHITE: You have a complicated currency. You have a currency for food; you have another currency for clothing and you have another currency for something else.

Mr. TAYLOR: No. You extend the same currency. The moment you have achieved your purpose in food, you extend it to cover social security. It will represent at the outset 55 per cent of the average wage of the individual. When that is once established, then leave the individual to himself. He has got his fod, clothing and shelter; and he can use his own common sense and his own ambition to provide himself with any further money that he needs.

Mr. CLEAVER: Do you propose this as a loan or a gift?

Mr. TAYLOR: No. It is a repayable wage, shall we say.

The CHAIRMAN: An advance on wages.

Mr. TAYLOR: It is an advance on wages.

Mr. CLEAVER: It is in effect a loan. If the man does not work during that year's period during which he has had this loan, what would you propose to do at the end of the year? Would you make another loan to him?

Mr. TAYLOR: It is quite abvious that if he is getting $33\frac{1}{3}$ per cent of the average wage of the individual in the country, then he is using up four months of the year in service.

Mr. CLEAVER: Quite so. But if he does not work, what then?

Mr. TAYLOR: If he fails to return service to the government or to an employer equal to four months during a year, then the government takes him and makes him work those four months and his debt is then paid.

Mr. CLEAVER: In effect, what your proposal amounts to is that you are setting up a ledger account for every relief recipient and you are suggesting—

Mr. TAYLOR: No, not for every relief recipient; for every citizen of the country.

Mr. WHITE: You admit, as I understand it, that these meal tickets or food tickets have to be redeemed in legal tender ultimately?

Mr. TAYLOR: Yes.

Mr. WHITE: In legal tender.

Mr. TAYLOR: In the hands of the primary producer.

Mr. WHITE: Which means an addition to the debt of the country. It means an addition to the debt of the country.

Mr. TAYLOR: Not exactly; because if a man is employed at $3 a day, his employer has to retain one dollar in order to repay the government for the security money which has already been advanced to the worker.

[Mr. Graham Ford Towers.]

Mr. WHITE: That would mean a great system of bookkeeping. I think you will have no unemployed in Canada. They will all be working on the books.

Mr. TAYLOR: That is exactly the way it should be.

Mr. WHITE: They will all be working on the books.

Hon. Mr. STEVENS: Mr. Taylor, let us assume an individual is now employed.

Mr. TAYLOR: Yes?

Hon. Mr. STEVENS: Suppose your plan is put into operation, and he is advanced this amount necessary.

Mr. TAYLOR: It will be paid out for his food.

Hon. Mr. STEVENS: It will be paid out for his food. Suppose he goes on for the whole year and makes no effort.

Mr. TAYLOR: For eight months.

Hon. Mr. STEVENS: For eight months, and he makes no effort for employment at all, but he is living. He has enough to eat; therefore he makes no effort. At the end of the period what happens (*a*) to the redemption of the $300 or $400 and (*b*) to the man for the continuance of eating?

Mr. TAYLOR: At the end of eight months? He is warned beforehand. He knows what he has got to do. It is his duty. He has been taught that in school. He grows up with it. At the end of eight months taken from any period, whether from his birthday or any other period which the government decides is a satisfactory one, he is bound to the government for four months. He can wipe out his account.

Hon. Mr. STEVENS: What is he going to eat for that four months?

Mr. TAYLOR: He will be producing his twelve months supply. He gets his food money just the same. He gets twelve months' sustenance, but it is repayable by four months service.

Hon. Mr. STEVENS: Do you not think at the end of eight months you would have an awful lot of persons prepared to lean on the government without any labour for the balance of four months?

Mr. TAYLOR: No; because they would be staggered all through the year, on the basis of their birthday or any other date that was satisfactory. They would always be turning in for their duty.

Hon. Mr. STEVENS: Would you not just perpetuate this condition of indigence?

Mr. TAYLOR: No. You cannot do that, because you are taking off the relief rolls men who can work through the increased employment which is demanded in the country by reason of these new activities. As a matter of fact, it has been claimed that the food account of the country could be increased not less than 20 per cent in a year by this very means. If that is the case, and 14 per cent of that 20 per cent would be demanded by transportation companies alone, you can easily see where the money would go. It would go into transportation and into primary production and would improve the level of the life of the country.

Hon. Mr. STEVENS: I do not see how you are not going to perpetuate that condition.

Mr. TOWERS: The pages in the record to which I referred earlier are 194 and 195, where I think a question of a similar nature was answered although without quite the same complications in respect to food and clothing currency and so forth.

Mr. TAYLOR: Pages 194 and 195? All right.

Hon. Mr. STEVENS: Mr. Taylor, I am intrigued by your suggestion. Would you take the million that are on relief now; that was the last report. Let us

assume we are going to apply your scheme and we are going to start with the million that are on relief. Will you take this million through a year; and then at the end of the year indicate how, from that period on, they are going to be dealt with.

Mr. TAYLOR: No. The moment you give them their food, their continuous food money, that which they use in excess of what they used before has to be produced; and services have to be performed by business men and by workers all through the country, in order to give that added sustenance to the individual who now demands it. All right. That is going to put a number of men to work, if it only puts ten thousand to work; and that is a very small number. If you take the actual figures, you have removed ten thousand from the relief rolls. The whole process goes on increasingly strong by virtue of the fact that you are building up your citizenry, giving them an added zest to life. At present they are not getting that. We are relieving them to keep them on the edge of existence. If you feed them properly, if you clothe them properly, and if you shelter them properly, then they will regain that ambition which to-day they have lost.

Mr. CLEAVER: You will then give them jobs?

Mr. TAYLOR: Sure. Jobs will be developing all the time; and those that do not develop must be provided for by the government.

Hon. Mr. STEVENS: That is not very much different from what we are doing with relief, except it may be an improved system of relief.

Mr. TAYLOR: We need a very greatly improved system of relief.

Hon. Mr. STEVENS: I agree with that.

Mr. TAYLOR: I have had officials from the civil service in my office and they have said, " Mr. Taylor, I brought my boy up and sent him to school "—this school and that school, a university here and a university somewhere else. They say, " He is now twenty-four years old and I have not found a job for him. What can I do?"

Hon. Mr. STEVENS: Quite so.

Mr. TAYLOR: All right. These men are capable of performing the work which is inherent in the activities associated with this scheme.

Hon. Mr. STEVENS: As to your objective and desire I have no criticism.

Mr. KINLEY: Do you not think the boy had perhaps been spoiled by the fact that his father had an easy government job?

Mr. TAYLOR: No. That may enter into it, but that is a rather weak point of view.

Mr. KINLEY: No, it is not a weak point of view. The same families are always the families that have no jobs.

Mr. TUCKER: You say they would be capable of doing the work that was inherent in this. Do you mean that bookkeeping in connection with it? Is that what you mean?

Mr. TAYLOR: There are all kinds of duties in connection with a service of that kind.

Mr. TUCKER: I do not understand what you mean. What do you mean by work which is inherent in this thing? Do you mean administering this?

Mr. TAYLOR: There would be a constant opening out of employment all along the line. Let us take shelter, for instance. Suppose the building contractors knew that every citizen was receiving a certain amount as shelter money; would that not spur on construction?

Mr. TUCKER: What I do not understand is this: I had in mind—and I think you were here when I suggested it—that purchasing power to provide the western farmers, for example, with food, clothes and shelter should be supplied them. If that is supplied in the form of vouchers so that they must spend it on

goods which we can produce in Canada, which will be in turn redeemable in legal tender cash, I do not see why that does not meet what you have in mind. That is what I do not get, where the difference is between your conception and what has already suggested.

Mr. Taylor: But if the farmer in western Canada is receiving to his credit the full money account or security money account of $30 for a thirty-day month and only uses $4 a year because he is growing stuff that is necessary on his farm, that is all he has to account for. But if he grows sufficient beyond his own necessary consumption to sell outside and he gets security money for $1,000 which at the rate over the past 5 or 10 years, should be $1,100, then his $1,000 security money will be translated into the currency of the country as the $1,000 is to $1,100, and the result would be that farmers would be receiving full price for their wheat, for all the wheat consumed in Canada; and your wheat board, or other organization, would take all surpluses and sell them for the farmers, returning pro rata to the producer.

The Chairman: Proceed, Mr. Taylor.

By Mr. Taylor:

Q. The policy is always advanced, "hands off business." Have you any idea just why that should be advanced?—A. I don't know exactly what the implication is, Mr. Taylor.

Q. But you know that cry is always raised, "hands off business"?—A. Many cries are raised around the country.

Q. Let me put it very directly. The idea is that governments should not interfere with business and business progress.—A. But in modern times the influence of government on business through governmental action is enormous.

Mr. Kinley: Not always beneficial.

The Chairman: And has been for many years.

Mr. Towers: And has been for many years. As there is some fresh development along these lines there may be such a cry. The cry may be warranted or unwarranted, that is a matter of each case, and also a matter of opinion.

By Mr. Taylor:

Q. Do you not think that business exercises a malevolent influence on government?—A. I do not think we can make any broad statement in that respect at all, Mr. Taylor.

Q. Well, I think I want to show, historically at least I think I shall be able to show, a reason for what I have said.

The Chairman: Do not travel too far afield.

Mr. Taylor: I will try not to. I do not want to go too far.

By Mr. Taylor:

Q. Mr. Towers, you are historically aware of the disastrous failures of Overend and Gurneys, and the City of Glasgow bank in the middle of the nineteenth century?—A. I remember both those cases vaguely.

Q. They were very disastrous, thousands were impoverished, and untold misery was caused all over the country in the compulsory action which compelled all who were financially interested in those institutions to help to pay the debts.—A. The stockholders?

Q. Yes. You know that to be the fact?—A. As I say, I have a vague recollection of those instances, but I do not remember any of the details.

Q. Well, it was largely as a result of these failures that the government of Great Britain enacted the Limited Liabilities Act in 1862. Now I make the statement that that act changed the moral outlook in business not only

of the old country, but of the whole world; that prior to 1862 when a man engaged in business he did it with the full knowledge that the whole of the obligations of that business lay on his shoulders as well as the shoulders of all his associates in the business.

Mr. KINLEY: What is that? I thought there was such a thing as royal prerogatives and royal charters.

Mr. TOWERS: All this gets me into the field of company law in England in the mid-nineteenth century, and I do not feel capable of dealing with that.

By Mr. Taylor:

Q. You do know that Limited Liability Companies Act removed forever the disability under which business investors laboured?

Hon. Mr. STEVENS: Only for limited liability.

Mr. TAYLOR: Only for limited liability companies.

Mr. TOWERS: I do know of the existence of limited liability companies, yes.

By Mr. Taylor:

Q. In that sense it changed the moral outlook of the average investor towards business?

Mr. TUCKER: Was not that the obligation of companies holding a royal charter, like the Hudson's bay charter, only to the extent to which they had assets?

Mr. TAYLOR: These were special charters. The world was not full of royal charters, or special charters in those days.

Mr. TUCKER: That principle was re-affirmed by the passing of the—

Mr. TAYLOR: The Hudson bay charter was granted in 1672, if my memory serves me correctly.

Mr. MCGEER: That stopped the holding of people for theft and under the bankruptcy law the holding of a man indefinitely.

Hon. Mr. STEVENS: What you are really referring to now is the very extensive spread of the limited liability company method of doing business.

Mr. TAYLOR: Precisely, and it definitely did change the moral outlook in business.

Mr. KINLEY: It was considered a masterpiece.

Mr. TAYLOR: Of course it was a masterpiece. I am not decrying that. I am saying definitely it did change the moral outlook.

The CHAIRMAN: Suppose we come to the issue under investigation.

Mr. TAYLOR: All right.

By Mr. Taylor:

Q. In 1908 we also had the private Limited Liability Act, by which a single individual could invest funds in a company and cease his responsibility beyond the amount of his investment—

Mr. TUCKER: It was possible before that, Mr. Taylor.

Mr. TAYLOR: No.

Mr. TUCKER: Yes. What about the Gentlemen Adventurers into Hudson's bay?

Mr. TAYLOR: Hudson's bay is not the whole world.

Mr. TUCKER: All kinds of companies.

Mr. TAYLOR: No, there were not. Pardon me, not all kinds of companies.

The CHAIRMAN: Proceed.

[Mr. Graham Ford Towers.]

Mr. KINLEY: What about 1908?

Mr. TAYLOR: 1908?

Mr. KINLEY: Yes, what was that?

Mr. TAYLOR: Since then we have had the cumulative preferred share and the preferred share, also another move by business to facilitate business transactions necessary, but at the same time each of them developed new ideas about the ethical conditions attaching to business, and later as well we have had the no par value share; and I am going to contend that the no par value share is something which should definitely be looked into by our government, because in every one of those provisions for the conduct of business, governments have taken no quid pro quo. They have granted those facilities to business but they have never investigated the conditions which would obtain by the application of these things to business.

Now, my point is this. Let me illustrate it by what has happened, although I will not be too precise. A certain utility company makes a dividend of 17 per cent. Immediately the government charges a heavy tax on that 17 per cent.

Mr. KINLEY: Utility companies are controlled by the government to 8 per cent.

Mr. TAYLOR: Wait a minute. I am talking about power and light companies.

Mr. KINLEY: They are utility companies.

Mr. TAYLOR: Before this control was taken.

Mr. KINLEY: I see.

Mr. TAYLOR: Now, then, a financial man steps in and says if I double the capital I will reduce the apparent dividend. So he purchases control of the utility company—St. James' street has done it thousands of times—purchases control of the utility company, re-orientates the company, issues 6 per cent preference shares to widows and other people all over the country, and retains the no par value shares for himself. In so doing he places continuous and permanent obligation on that particular utility to pay continual profits on the profits already made by the ingenious transaction and the acumen of the businessman. Now I contend that it is high time these things were investigated by our people because eveything material dies—

The CHAIRMAN: Mr. Taylor, that is not germane to the central bank.

Mr. TAYLOR: You do not think it is?

The CHAIRMAN: I hardly think so. It is very interesting, but I doubt very much if it is germane.

Hon. Mr. STEVENS: I may say we made a report on that five years ago in the Price Spreads Committee.

Mr. TAYLOR: That is very interesting. I have looked at the Price Spreads Committee report, but I did not see that there.

Hon. Mr. STEVENS: We recommended a revision of the Companies Act.

Mr. CLEAVER: Perhaps it won't take long.

Mr. TAYLOR: It is practically finished now.

Hon. Mr. STEVENS: That applies to the Companies Act more than to the Bank Act. There is an important study there.

The CHAIRMAN: Very, very important. I do not think it has anything to do with the Bank of Canada Act.

Mr. TAYLOR: I am afraid it has quite a little to do with banking and commerce, and this is the Banking and Commerce Committee.

The CHAIRMAN: Proceed. This committee is just now investigating one particular subject.

Mr. TAYLOR: All right. Then, for the moment I will cease my questioning right there because I think the point is one—

Hon. Mr. STEVENS: Before you cease—I certainly would not wish to be one to interrupt you or stop you. Before you cease, would you direct to the governor of the Bank of Canada a question which you conceive might effect some way an improvement of the conditions which you point out as questionable, because that is what we are here for.

The CHAIRMAN: I think that is a very good suggestion, Mr. Taylor.

Mr. TAYLOR: Then I will go on to the question. While I have not yet prepared a question on it, I think I can evolve one. I have a very keen interest in the cancellation of our national debt. I notice that in the proceedings Mr. Towers does not consider that a very serious matter, that it is merely money held by certain individuals as against certain other individuals in our country.

Mr. TOWERS: I did, of course, say this, as you will recall, Mr. Taylor, that while one should remember that to the extent the debt is held within the country it is held by Canadians and therefore owed by Canadians to Canadians; that the purposes for which that debt has been incurred, either private or public, are very important; that if it has been used for something which is not as productive as an alternative use which may have been made of the money, that is a loss to the country, and secondly, that the question of distribution of the debts is also very important. But I really started that subject in response to questioning which indicated that we were somehow or another swampd, going into bankruptcy, facing terrible things because of both public and private debt. I thought in response to that I should point out it was an internal matter, where the questions of distribution and the uses to which the money had been put were the important factors, and until one examined these two things one could not say whether the situation was good or bad.

By Mr. Taylor:

Q. You will agree that within the corpus of the debt, national, provincial and municipal, there are many debts which have been incurred for things which were in time effaced, or ones that were wrong in the beginning?—A. That would imply that if the money had been used for some other purpose we might have been better off.

Q. What opportunity is there for the cancellation, or the disintegration of that debt, other than repayment?—A. There you come to that question of distribution; at the same time that it is a liability of governments, or municipalities or provinces or industries, it is the asset of various citizens of Canada. Now then, if you choose to make a 100 per cent capital levy I suppose that you could extinguish the debt that way. I do not say that that would be a fair way of doing it, or even a way which would necessarily advance the interests of the country as a whole. If that were done you might simply find that the country as a whole was exactly as it had been before, but that the position of a number of citizens had changed to the converse of what it was before.

By Mr. Cleaver:

Q. Then too, blocks of the national debt are periodically maturing and if we have a budget surplus we use it to pay the debt as portions of it reach maturity, do we not?—A. That is true, although earlier in the proceedings I did point out that for that process to go on at a very rapid rate; that is, repayment of maturing debt out of taxation, the constant reduction of the total debt, must mean of course a higher level of activity within the country.

Q. Quite?—A. And also there is the possibility of the people who receive payment for the maturing bonds finding useful employment for that money which is returned to them, useful employment in the form of capital development.

[Mr. Graham Ford Towers.]

Mr. CLEAVER: I take it from Mr. Taylor's observations that he has arrived at the conclusion that once the public debt is increased it is there indefinitely, as a matter of necessity that there is no provision made for its retirement. I just asked this question to show that periodically the opportunity occurs through the maturity of different blocks of debt.

Mr. TAYLOR: That is not an opportunity, that is a necessity.

By Mr. Taylor:

Q. I want to enlarge on that so as to show the point. In Vancouver, which Mr. Stevens very well knows, when Vancouver became a municipality it borrowed $100,000 to lay down wooden side-walks. It laid them down. They were very useful. Within eighteen months they tore up three-quarters of a mile on each side of the main street and put down concrete. In eight years there was not a single side-walk that had been built out of that money, but for forty years the debt still hangs against the municipality at 5 per cent. Now, of course, you would say that when they entered into the obligation they meant to carry it out. I agree with you, every obligation should be honestly paid. But governments have no means by which they can be met, except taxation, and re-distribution, as you call it.—A. Of course, in the cases you mention it might have been—I am not aware of the exact circumstances—it might have been the opportune thing to do, to have borrowed only for the term of the lifetime of the work. In that event it might have been the more opportune thing to do. One should not forget, of course, that the fact that this particular municipality did not collect from its citizens sufficient in taxes to discharge that debt during its life meant that the citizens had that much more in their possession that they could invest that money in other ways if they wanted to. It has some value in other hands, surely. I do not say that that was the proper thing for the municipality to do, but one must not regard it as a total loss because one must remember that the taxpayers had that much more to do what they wanted with.

Mr. TAYLOR: I do not regard it as a total loss, but I do regard it as forty years slavery, until the bonds are paid off.

Mr. WHITE: What about the idea of a sinking fund? Do you now think that that would be a good thing to apply to a situation of that kind?

Mr. TAYLOR: No, I do not like sinking funds. I do not think they prove very satisfactory in the long run. I think there should be another way found to extinguish these debts. My suggestion last year to the committee was that gold should be purchased and initial money made against that gold on a ratio of 50 per cent, and that money used for the purchase of debt, and held of course by the Bank of Canada.

Mr. TOWERS: That is simply an increase in the supply of the medium of exchange, and whether or not it is going to be based on gold does not matter so much as things stand to-day. If the supply of the medium of exchange is increased by means of notes you have certain results.

By Mr. Cleaver:

Q. Why should not the Bank of Canada issue money that is to purchase as much of the national debt as can be purchased carrying high rates of interest and carry that on its books, redeeming in part the amount of money it has issued and then cancelling out the debt?—A. That exact question has been raised before. Instead of trying to repeat the answer I might refer you to the point in the record at which it may be found, is that satisfactory to you?

Mr. TAYLOR: Quite.

Mr. TOWERS: That information will be found at pages 90 to 92, and again from page 197 to page 200.

Mr. TAYLOR: Thank you.

Mr. CLEAVER: Mr. Taylor, how many hundreds of millions of dollars would you suggest should be issued that way?

Mr. TAYLOR: I am not in a position to give you an answer to that question. I think Mr. Towers could do it very easily; or, rather, after he considers his figures, and knowing how he can infuse the extra money into the business system of the country. It should be adopted after expert study, definite study, by experience, definite study by experienced men.

Hon. Mr. STEVENS: Mr. Taylor, you referred a moment ago to Vancouver and expenditures on work that was short-lived. This is not perhaps appropriate but I would just like to say this because it illustrates one point. Thirty years ago I was an alderman, and the first thing that we were called upon to consider after my election was the finance committee considered a loan of $2,500,000 in Vancouver for clearing and grading streets, wooden side-walks, etc. I took the stand that none of that should be done on borrowed money, that we should do that class of work out of current revenue; the answer to that attitude on my part was, what is the opportunity of borrowing money, and they found it was ample; therefore, they borrowed to do that work, because borrowing was simple and they found the opportunities ample. A great deal of our difficulty in Canada has come from, shall I say, loose financing or reckless borrowing when it was not absolutely necessary.

Mr. TAYLOR: I agree with you.

Hon. Mr. STEVENS: Or on long term permanent works which would be more or less self-liquidating.

Mr. TAYLOR: I agree with you.

Mr. KINLEY: With a sinking fund.

Mr. TAYLOR: Yes, look at that new harbour bridge we have there in Vancouver which cost us $2,800,000, and look at the long term of years over which that will have to be repaid.

Mr. KINLEY: Mr. Taylor, before you go, I gather from what you said that everybody in the country should be assured of food and clothing and shelter by some system whereby there was enough money provided for that purpose; is that it?

Mr. TAYLOR: Yes.

Mr. KINLEY: Isn't that just going back to slavery? Isn't that what they did for the slaves; feed, shelter and clothe them? Have we not advanced to the point where a man is a man and has some responsibilities?

Mr. TAYLOR: Yes. We usually run in cycles, with this exception; we advance upwards or downwards. The next slavery would not a slavery such as you talk of; a man would be a free man, knowing full well that his social security is an established thing for him, and in course of time if not immediately he would recognize the fact that his prime duty was to repay all that he had received to protect his social security. It seems to me that the thing is in itself beyond question.

The CHAIRMAN: Thank you, Mr. Taylor.

Mr. TAYLOR: I want to thank you, sir; and Mr. Towers, for his kindness in bearing with my questioning.

The CHAIRMAN: Mr. Cleaver and Mr. Kinley have given way to Mr. McGeer, I understand.

Mr. KINLEY: Well, the things in dispute are the things that Mr. McGeer is talking about; and after all, we all want to learn.

[Mr. Graham Ford Towers.]

By Mr. McGeer:

Q. Well, Mr. Towers, when I entered the examination the other day we were dealing with the question of the power of the Bank of Canada to control the volume of the medium of exchange and circulation by the branch of open market operations which had to do with buying of securities?—A. Or other assets.

Q. Or other assets?—A. And selling as well.

Q. And I understand in your statement to Mr. Stevens at page 423:—

> Q. What would be the result if the Bank of Canada were to purchase, say, $200,000,000 of these government bonds from the chartered banks? What effect would that have?—A. The chartered banks' cash would increase by $200,000,000.
>
> Q. Yes?—A. And their assets in the form of government bonds would decrease by $200,000,000.
>
> Q. Yes?—A. You would then find that at the first stage of the transaction their deposits were the same as before, but their cash would have gone up from $250,000,000 to $450,000,000.
>
> Q. Yes?—A. That would, shall I say, push the banks—at least, give them a strong inducement to try and find additional loans, if they could; the inducement there being, I think, no greater than now, because it is just as acute as it could be, so far as cash is concerned.
>
> Q. I imagine, if I might interject, that if that were done, there would be far more effort made to find this class of borrowers that Mr. Baker referred to a moment ago?—A. I do not think so; because the pressure under which the banks are operating in that respect is, I think, just as intense as it could be.

I take it from that conversation that you agreed that with the reserves the banks have to-day and the available bank deposit money that that might issue if favourable borrowers could be found, that the increase in the bank cash would not increase bank loans?—A. Not of and by itself.

Q. Not of and by itself; so that we can agree I think in the light of that statement that as far as controlling the increase of the issue of bank loans as a means of increasing the medium of exchange in circulation, whatever power the Bank of Canada has in that regard has been used to the limit?—A. Yes, that power lies in the hands of the borrowers, it does not lie either in the hands of the Bank of Canada or of the chartered banks.

Q. So that the power, according to your statement, is not a power that the Bank of Canada might use to increase the volume of the medium of exchange in circulation?—A. Nor in the chartered banks.

Q. Nor in the chartered banks, so that is out.

By Mr. Kinley:

Q. Just a minute; it takes two people to make a loan; the man who wants it and the man who gives it. The man who wants it may be perfectly agreeable and the man who gives it may say your security is no good. The bank has control.—A. To the extent that loans requested are refused, then you have the power of the chartered banks entering into the matter, and then it becomes a question of deciding whether these loans are ones which involve only reasonable risk, or if they were loans that should have been made; if the bank were quite right in refusing to make them, then that is the answer to that.

Q. I quite agree, but it is not the fellow who wants the loan who is going to turn it down, the responsibility of declining it rests with the bank.—A. I would say that the thing is to a certain extent within the power of the borrower, if it is a case such as this, that the bank cannot force him to take money. But the action of the banks in refusing loans might make them smaller than they would otherwise have been.

Q. There is this other point. If what Mr. McGeer says happens, the banks have a big burden on their hands of legals which they do not need; is that not true?—A. That is, if loans are not increased.

Q. If they say, "We have the security to advance our credit but it is not advisable to lend it," we have to do something with that money?—A. Yes. In that case you will probably find that they will turn to additional investments.

Q. In debentures?—A. In government bonds, and so forth.

Q. Therefore, when the bank is investing in debentures it is prima facie evidence that there is more money in circulation than is needed for the business of the country?—A. It is prima facie evidence that if there is going to be an increase in the medium of exchange it cannot take place through an increase in bank loans. But, of course, it does then take place through the increase in bank investments, thereby increasing the total of deposits. Thus it can be said that so long as one has a normal situation in respect to commercial bank operations the central bank has a very strong influence on the amount of bank deposits in the country. But its influence does not extend to saying how much of the commercial banks' assets shall be in the form of investments and how much in the form of loans. The division as between those two things depends on the action of the chartered banks.

Q. Depends on the profitable business they can find at large?—A. Their action in turn depends upon the possibility of finding borrowers to whom they feel they can lend.

By Mr. Cleaver:

Q. Do I understand correctly, through Mr. McGeer's question and your answers, that under present day conditions when there is no demand for commercial loans and when the Bank of Canada enters the market and buys securities, thus putting new money into the stream, there is not a ten-fold expansion because of the fact that there is no demand for commercial loans? —A. There is a ten-fold expansion but on the basis of the banks adding to their investments rather than their loans and increasing their holdings of securities. Incidentally, I should say, when we are speaking of there not being a demand for loans, I think we all mean such a demand as would result in an increase and a continuing increase. There is obviously a demand for $800,000,000 in commercial loans because that is what the banks have loaned out.

Q. So that the expansionist move which you have made has simply had the effect of driving down interest rates?—A. That is the major effect, yes. Incidentally, of course, commercial loans have increased during the course of the last couple of years.

Q. Having in mind the fact that we have insurance companies and other companies dependent for their very existence on interest rates, how much further do you think that easy-money policy could be carried on with safety in Canada?—A. That is, to what extent could it be intensified having a still further effect in driving down rates?

Q. Yes.—A. I find it impossible to answer that question as it relates to future policy.

By Mr. McGeer:

Q. I should like to proceed with the question of control. What I have in mind is this. I may be wrong about my conclusions, but I understand that when the Bank of Canada was established it was going to come into being as an institution that could control and regulate the volume of medium of exchange in circulation. I think the modus operandi of that control has been explained to the house, and I think it is of the utmost importance to the members of this

committee and to parliament to know what those controls are and whether they are effective or not. If we are dealing with a situation to-day, we want to know what those controls are and why they are there, and we want to know their effectiveness and efficiency.

As far as I am concerned, I think we have learned from this inquiry that international exchange in Canada has found its own level; that there is no control over the volume of currency and issue through the bank rate because the banks do not borrow and have not been borrowers under any bank rate since the Bank of Canada came into operation. That is on the record now.

The second branch of control with which I was dealing was the open market operations. One branch of that policy which is very fully discussed in the MacMillan report is buying securities in gold. The other branch is selling securities in gold. The broad theory of that control, as it has been explained and presented, is that when the bank goes into the market to buy it increases the volume of bank reserve cash available to the banks upon which banks can increase their bank deposit issues, and it is intended to create not only an easy money policy but a cheap money policy to induce borrowers to go to work with available capital. I think we have had it very clearly in the governor's frank answers both to myself and Mr. Stevens, that in to-day's abnormal conditions that policy of purchasing securities and putting more Bank of Canada cash into circulation does not produce the result of cheap money generally, because it does not increase, and could not increase by a further expansion of Bank of Canada bills, the bank loans which the banks are finding difficult to secure at the moment. As he says, it does increase the volume of investments which largely means that the Bank of Canada issue of money makes available to the banks bank deposits to purchase government securities, treasury bills, and so on.—A. It increases their cash reserves to an extent where they can purchase additional securities and have sufficient reserves to support the enlarged volume of deposits.

Q. I think you were very frank with me because what you said was this: That while there had been as a result of the easy money policy increases in bank loans it was your opinion that without the increases in Bank of Canada cash issues that had been made those loans, to the extent they had been increased, would have been made in any event.—A. Probably.

Q. What I should like now to come to is the other branch, that is, the effect of the power of that control when the Bank of Canada is in the business of selling securities.

By Mr. Cleaver:

Q. Before you come to that other branch, if the present policy has increased the amount of money that is invested in securities and the banks are holding as a result of that policy four hundred million or five hundred million dollars' worth of additional securities with practically no increase in the commercial loans, does it not rather necessarily follow that there must be some private individuals who are employing more money in commercial enterprise as a result of that movement?—A. Well, it follows that the individuals have more in deposits than they otherwise would have. That is the second factor in such a policy. It not only produces lower interest rates, more particularly on government obligations, but it also gives individuals $500,000,000 more in deposits than they would otherwise have had.

Q. I think perhaps I have not made my point clear. Unless government deficits and government borrowings absorb the whole of this increase I would suggest that some private individuals and private concerns must have some additional capital free for their operations.—A. Well, it would mean then that private individuals or companies who had previously owned government bonds

had sold them to the banks and they had the deposits and the money. That is the second factor in such a policy. It means that in so far as bank depoists are concerned the people have some \$500,000,000 more than they otherwise would have had.

Q. If, on the other hand, the government has increased its borrowings and its bond issues to the extent of the full amount of this inflationary or expansionist movement practically no result then would follow along that secondary line?—A. Yes, because still the people would have \$500,000,000 more of deposits than they had some years before. And to the extent that the supply of the medium of exchange in the form of deposits is greatly increased there is then a pressure on individuals to put that money to work, just as there is in the case of banks whose cash reserves are increased. The pressure comes by reason of (*a*) the larger amount, and (*b*) by reason probably of the fact that they are receiving in the form of interest on the deposits a good deal less than they received before. Now, that gives every possible encouragement to holders of these deposits to use them or invest them in some other form. If circumstances are such that they do not see their way clear to do so, then you have idle deposits and to that extent the circumstances have worked against certain of the results of an easy-money policy.

By Mr. McGeer:

Q. Now we come back to the proposition that we are all here for. We are all agreed that for some reason or another the depression continues, unemployment continues and a lag in business expansion also continues. So that when we deal with conditions to-day, notwithstanding results in theory, as Mr. Cleaver suggests, I think we all agree that we are not getting results in the way of a general return to going concern activity which we would like. I think we all agree on that?—A. Yes.

Q. But whether it be through a lack of bank loans going out or lack of private investment in private enterprise, there is a general lag in business expansion which we would all like to remedy but which up to the present time we have not been able to remedy. What I am dealing with are the control powers which the banks are supposed to have in the light of to-day's conditions. The third one I want to deal with, and on which I think you will agree with me, is that there is no need for action on the part of the Bank of Canada to reduce the cash reserves of the merchant banks for the purpose of compelling them to reduce their commercial loans?—A. I see no reason for such a policy at this time, certainly.

Q. I should like to put on the record a short statement from the British MacMillan report, page 98, dealing with that phase of control. It will be found under section 221:—

> When substantial changes in the level of our industrial costs are necessary to correspond to substantial changes in the value of money, changes in bank rate alone cannot hope to achieve all that is necessary. In such a case, however necessary it may be, that bank rate policy should be employed—

and in connection with the term "bank rate policy" they are using it as including open market operations as well—

> —to maintain the international value of our currency, some other supplementary means must be found to restore equilibrium. For consider how bank rate policy works out in such a case. Its efficacy depends in the first instance on reducing the profits of business men. When in the effort to minimize this result, output and employment are contracted, it depends on decreasing the amount of business profits and increasing unemployment up to whatever figure is necessary to cause business men either to decrease their costs by additional economies or to insist on, and their

> workers to accept, a reduction of wages. But public opinion does not easily acquiesce in such a process. And the reduction, if and when effected, will fall unequally and unfairly on those sections of the community who are least protected by contract, least able to defend themselves, and often least able to afford the sacrifice.

You will agree that if we put into operation the power to withdraw from the merchant banks their reserves of cash to the point of reducing the commercial loans and call loans that would be the result, would it not? We would have an increased depression.

Mr. Kinley: Yes; that is what happened in the United States.

Mr. Towers: The circumstances which they are mentioning there are the control factors during the course of or at the height of a boom, I take it.

By Mr. McGeer:

Q. My reason for putting that question to you is that in an answer to Mr. Deachman the other day you said—or rather he said that the testing time of the Bank of Canada had not arrived but that the testing would come in a boom period.—A. Yes, because the control there is of a more unpleasant variety.

Q. Yes. What I am suggesting to you is that to break a boom, there are conditions that must be developed if bank control policy is going to be effective in breaking it?—A. And assuming that the thing has gone so far that drastic action is required.

Q. Yes. So that are we not in this position so far as the Bank of Canada control is concerned: We have allowed international exchange to find its own level. We have never resorted to the use of any equalization fund because authorization for its use has never been proclaimed?—A. The section of the Act which authorizes its use for buying and selling foreign exchange has not been proclaimed.

Q. So we have never resorted to the use of the equalization fund in Canada?—A. No.

Q. Under that legislation?—A. No.

Q. And, as you told us, international exchange has found its own level. That is right?—A. Yes.

Q. We have no control therefore by changing the quantum of the bank rate upon which the Bank of Canada loans legal tender cash to merchant banks—is that right?—because the banks have not borrowed legal tender cash?—A. We ourselves have made it unnecessary to think in terms of bank rate by reason of the easy-money policy which we have followed, yes.

Q. I am not concerned about the reason.—A. Yes.

Q. But I am saying that there is no control being exercised in that regard by the Bank of Canada.—A. By reason of our own action, yes.

Q. By reason of your own action. The third policy is that of buying securities and gold and putting money—putting legal tender cash into circulation?—A. Yes.

Q. That has reached a point where the merchant banks of Canada have a sufficient amount of cash available on deposit with the Bank of Canada to service their existing purchases of investments and their existing loans and leaving a substantial margin over to finance any other loans which might be available?—A. A reasonably substantial margin on the basis of their practice of, say, an average of $9\frac{1}{2}$ per cent cash reserve, yes.

Q. And that control is not operative under present conditions?—A. Yes.

Q. Then you agree with that?—A. No, I do not agree with that. The policy has been to expand credit during recent years.

Q. But we have expanded to the point so that no further forcing of bank deposit issues in the way of loans can be made by more Bank of Canada bills

being pushed out?—A. Not unless borrowers come along for the loans. That does not mean, of course, that no further expansion of deposits is possible.

Q. No. What I am saying is that, in the light of the condition of business and trade—commerce and industry in Canada to-day—the banks are anxiously endeavouring to find loans for their surplus reserves of bank deposits that can be issued on their reserves of cash, and the banks are not successful.—A. Yes.

Q. So that any further issue of Bank of Canada legal tender cash would not change the situation to-day?—A. Not in respect to commercial loans, no.

Q. Not in respect to increasing the volume of money in circulation through commercial loans?—A. No.

By Mr. Cleaver:

Q. If rates came down, might not commercial loans increase?—A. That I would find a very hard question to answer, except in examining each specific case. In other words, would people who will not borrow at 5 per cent, borrow at $4\frac{1}{2}$ or 4 per cent? There may be an occasional case of that. I doubt whether they are very numerous.

Mr. McGeer: There is one more question I should like to get. I do not know whether it is possible or not, but I might just state to you. I might not have framed it as it should be framed.

By Mr. Tucker:

Q. While Mr. McGeer is looking for that, might I ask if there has been any tendency for commercial rates to go down as a result of your policy?—A. Yes. Quite some years ago the best commercial rate would be, I think, about 6 per cent. To-day it is 5 per cent or possibly less.

Q You attribute that to the easy money policy?—A. I attribute that to the pressure to try to get loans, yes.

Q. Might it not be possible that it is competing capital or credit from the United States?—A. I beg your pardon?

Q. Might it not be possible it is competing credit from the United States?—A. That competition occurs in certain loans, but in a very restricted way. It sometimes occurs in connection with grain loans, for example. That has been a factor there.

By Mr. McGeer:

Q. What I should like to get, if it is possible, is this: How are Bank of Canada bills made available to the merchant banks? I should like to get a statement, if this is correct, as to the way by which the banks have received Bank of Canada bills, that is legal tender, broken up as follows: (*a*) How much did the merchant banks of Canada receive in exchange for dominion notes and other securities which they had at the time of the commencement of Bank of Canada operations?—A. I can answer that immediately by saying—

Q. I should like to carry on, if you do not mind.—A. Yes.

Q. (*b*) By exchange for gold holdings by the merchant banks; (*c*) by the purchase of gold by the Bank of Canada; (*d*) by the purchase of securities by the public; (*e*) by the purchase of securities from national and provincial government and other securities; and (*f*) by rediscount. If I could have a statement breaking those amounts down into those categories, I should like to have it. Also, if there are other methods or other procedures by which Bank of Canada bills can come ultimately into the possession of the banks, the merchant banks, then I should like to know what are they and how much was involved.—A. The question will be, I take it, the total cash of the banks, whether it is on deposit with us or whether they hold it in the form of notes?

Q. And how do they get it—A. Yes.

Q. Here is another thing that I should like to deal with when we resume, and I might indicate it to the committee now. In the *Monthly Times* there is an article by Hon. Reginald McKenna in which he rather fully deals with the

ability of the British control system to segregate internal currency control from international exchange influence. In the most recent issue of the Midland Bank *Monthly Review* for April and May, he deals with what he sets up as a theory that there is now a change in monetary policy whereby, in anticipation of war, money rates are going to be elevated as a traditional, inevitable consequence of war needs. As to whether or not that has any effect in Canada is a subject upon which I should like to examine at the next session.

Mr. CLEAVER: I have three questions I should like to ask before we adjourn, and to which I should like Mr. Towers to prepare answers.

By Mr. Cleaver:

Q. What is the amount of all government deficits, both provincial and dominion, in Canada since 1930?—A. May I get that clearly? The actual amount outstanding since 1930?

Q. The amount of all government deficits.—A. Deficits?

Q. Yes, provincial and dominion, since 1930.

The CHAIRMAN: Did you include municipal?

Mr. CLEAVER: No.

The CHAIRMAN: Did you say "debts" or "deficits"?

Mr. CLEAVER: Deficits. Then, the amount of the expansion of credit by the central bank purchasing gold or securities. This is my third question: how much further will the assets of the Bank of Canada permit the bank to go in the purchase of gold or securities to bring about a still further expansion of credit?

Mr. TOWERS: May I put on the record, Mr. Chairman, these two statements that were referred to this morning relating to chartered bank earnings.

CHARTERED BANK EARNINGS, PAID-UP CAPITAL AND REST FUND FROM CASH PREMIUMS

Millions of dollars

*	Capital paid-up	Rest fund from cash premiums**	Total	Net earnings available for divid. and surplus	Ratio of net earnings to capital and rest fund from cash premiums Per cent
1929	141·7	63·7	205·4	21·8	10·6
1930	144·0	66·8	210·8	20·5	9·7
1931	144·0	66·8	210·8	18·0	8·5
1932	144·0	66·8	210·8	16·2	7·7
1933	144·0	66·8	210·8	14·0	6·6
1934	144·0	66·8	210·8	13·0	6·2
1935	144·0	66·8	210·8	12·7	6·0
1936	144·0	66·8	210·8	13·4	6·4
1937	144·0	66·8	210·8	13·5	6·4
1938	144·0	66·8	210·8	13·1	6·2

* Figures are for respective fiscal years of the banks; excluding Weyburn Security Bank and Barclays Bank for which full figures are not available.

** As shown in the Canadian MacMillan Report for 1932, adjusted for increases in capital during 1929 and 1930.

CHARTERED BANK EARNINGS AND SHAREHOLDERS' EQUITY

Millions of dollars

*	Shareholders' Equity Capital paid-up	Rest fund	Undis- tributed profits	Total	Net earnings available for divid. and surplus	Ratio of net earnings to share- holders' equity Per cent
1929	141·7	157·2	8·1	307·1	21·8	7·1
1930	144·0	161·5	8·2	313·7	20·5	6·5
1931	144·0	161·5	8·7	314·2	18·0	5·7
1932	144·0	161·5	5·4	310·9	16·2	5·2
1933	144·0	132·0	6·4	282·4	14·0	5·0
1934	144·0	132·0	7·1	283·1	13·0	4·6
1935	144·0	132·0	7·5	283·5	12·7	4·5
1936	144·0	133·0	7·5	284·5	13·4	4·7
1937	144·0	133·0	8·7	285·7	13·5	4·7
1938	144·0	133·0	9·6	286·6	13·1	4·6

* Figures are for respective fiscal years of the banks; excluding Weyburn Security Bank and Barclays Bank for which full figures are not available.

The CHAIRMAN: When shall we sit again?

Mr. ROSS: I should like to ask Mr. Towers if it would be possible for the Bank of Canada, or the government of Canada, to control its exchange rate with the United States if the United States, for instance, did not wish us to depreciate or appreciate our exchange? Is it within our power to control our exchange rate with the United States?

The CHAIRMAN: When shall we meet again?

Mr. CLEAVER: To-morrow morning.

The CHAIRMAN: I hardly think we can meet to-morrow morning, as there is a meeting of the Ontario Liberal caucus and the Railway Committee and the Public Accounts Committee.

Mr. CLEAVER: Four o'clock.

The CHAIRMAN: This committee stands adjourned until 4 o'clock to-morrow afternoon.

The committee adjourned at 6 p.m. to meet again to-morrow, May 16, at 4 p.m.

APPENDIX "A"

EXTRACTS FROM PHAMPHLET ENTITLED "BANKING AND INDUSTRY" BY A. W. JOSEPH, M.A., B.Sc., A.I.A.

(Submitted by Mr. JAQUES, M.P.)

Saving not involving the creation of fresh capital equipment

It will be agreed that the orthodox argument cited above does not make provision for the distribution of more money than is sufficient to balance the costs of goods coming on the market. If therefore some of the money distributed is saved whether by a private person or by a company there must be a deficiency of purchasing power. This fact will not be denied if saving takes the form of hoarding money or leaving money unused on deposit at the bank. But it applies equally well if we "invest" our savings by buying securities. If we purchase the securities from the Banks (not necessarily direct) the money paid to The Banks is immediately cancelled and is no longer available for buying gods. (On the liability side of The Bank's accounts, deposit and current accounts are reduced by the sum paid and on the assets side investments are reduced.) If the investment is effected by buying securities from another member of the public and if the second member uses the money he has obtained for purchasing goods, then of course this transaction has not decreased purchasing power. The second member of the public has, however, spent past savings and it is undeniable that the spending of past savings will neutralise the effects of present saving. But in normal times the amount of present saving largely exceeds the amount of spent past savings. For the effects of a lack of money are so serious both to an individual or to a corporation that there is a continual urge by the government, insurance companies, and other parties to impress on the public the traditional virtues of hard work and thrift. In times of deep depression when money is scarce the tendency to save may be overcome, although what usually happens is not that past savings get spent, but that they are destroyed by the depreciation in value of the security in which the saving has been invested. Taken as a whole the net increase in saving particularly in the form of company reserves and the losses due to writing off or writing down of share values are big factors in causing a deficiency of purchasing power.

The above argument is not intented to give the impression that it is wrong to save. Indeed in a world where money is scarce, the provident man or company has a huge advantage over the one who has not saved. All it is intended to prove is that under present conditions saving causes a deficiency of purchasing power.

Saving involving the creation of fresh capital equipment
(The Double Circuit)

The simplest way to study what occurs in the process of using savings for fresh capital expansion is to examine a sequence of operations in detail. Suppose a manufacturer whose existing resources are otherwise employed starts a business by borrowing say £10,000 from The Banks. He builds a factory and in so doing distributes £10,000 to contractors. He must repay The Banks the £10,000 and therefore must include it as an overhead cost in the prices of the articles which he produces. Now ignoring the fact that the original £10,000 was distributed at one time and must be collected from the public in the prices of articles at another time (which point will be dealt with later) we may

say that the public has possession of the money wherewith to meet the overhead costs. Suppose the manufacturer's business prospers and not only is he able to collect his necessary overheads, but he is able to accumulate a reserve of say £5,000. By so doing he has collected from the public £5,000 more than he has distributed. So far this is an example by a business of saving not involving the creation of fresh capital equipment. But suppose the manufacturer decides to use his £5,000 for expansion. He builds an extension to his factory costing £5,000 and in so doing distributes this amount to contractors. Now he is all square as regards money distributed to the public. But having built a factory at a cost of £5,000 he will, according to normal accounting methods, charge in the price of the goods manufactured by the second factory overheads sufficient to bring him in £5,000. These costs have never been distributed and therefore sooner or later the costs of his articles will exceed the money in purchasers' hands. The £5,000 has run a double circuit. It was included in the price of the original articles in order that the £5,000 reserve should be formed and it is also included in the second batch of articles. But it was only distributed once when the second factory was built. Or alternatively the matter may be looked at from the following point of view. The extension to the factory is a new physical increase of wealth but the amount of the money available has not increased. Had the manufacturer approached The Banks when he wanted to build his extension and borrowed £5,000 he would have distributed £5,000 new money to the public. But instead he accumulated a reserve and tried to make an existing £5,000 suffice to meet the costs he set up by building the extension.

It might be objected that the manufacturer is under no necessity to include the cost of the extension in the price of the goods manufactured by this new factory. This is perfectly true and the manufacturer could have written down the value of his factory extension to nil as soon as it was erected, in which case he need not collect the cost of the extension in the prices of his goods. Such a procedure, however, is contrary to accepted accountancy practice, is opposed to common sense and is in essence extremely deflationary. It is also contrary to the accounting methods which the manufacturer would be forced to use if he had built the factory by borrowing from the banks. The full import of this latter statement will be appreciated if the factor of competition is considered. Suppose a competing manufacturer Y without private resources builds a factory in the same way that X did when building his original factory, i.e., by borrowing from the banks. He borrows, let us say, £5,000 which he distributes to contractors and therefore he is bound to collect the £5,000 in the prices of goods. X is not bound to collect his £5,000 but in practice will try to do so. X and Y between them are trying to collect £10,000 from a public which has only received Y's £5,000. X could, of course, undersell Y, but the more likely thing to occur would be for X to collect £2,500 from the public and Y a further £2,500. X would thus have been forced to write down the value of his factory extension to £2,500 and Y would be £2,500 in debt to the banks, i.e., would still be trying to obtain £2,500 from the public in order to get himself out of debt. Thus the double circuit has formed an excess of costs over purchasing power which excess might have originally been rendered harmless if the original manufacturer had adopted the spartan procedure of writing down his extension of capital to zero. But in the hurly-burly of competitive trade some of the deficiency is made absolute because some manufacturers are forced into debt to the banks, while other manufacturers are compelled to write down their capital and to subsidize the public.

When one is forced to write off capital in this way one is said, in banking parlance, to be putting one's house in order, and this method is one of the banks' traditional means of overcoming a slump. The method it must be admitted is of some success in its primary object of reducing the disparity between costs and purchsing power, but it is questionable whether the resulting

dislocation and stagnation of trade followed by the crop of bankruptcies caused by such drastic deflation are not worse than the disease it is intended to cure. That such a method should be put forward as the only sound way of overcoming an admitted disparity between costs and purchasing power is a result of the view that it is unsound if not impossible to distribute new purchasing power in any other way than through the banking system as loans to producers.

THE TIME FACTOR

In the preceding arguments costs and purchasing power have been considered without relation to the time at which the costs come on the market as prices and purchasing power is distributed as wages, salaries and dividends. But this question of time is all-important.

The disparity in time between costs and purchasing power as regards separate articles may be divided up into three stages. First stage:—Before the goods come on the market money distributed is in excess of prices. The proportion of money and the period of time over which it is distributed in advance depend on the article produced and on the conditions of industry. Thus if human labour is being displaced by machines the amount of money distributed when the machines are made may be larger than that distributed at the time when the goods themselves are being made. Second stage:—When goods come on the market costs exceed money distributed. Third stage:—Later on (according to the orthodox theory, i.e., excluding the considerations of saving and the double circuit referred to earlier) the difference between costs and purchasing power is made up by dividends. This distribution may not be completed until many years after the goods have been sold, and usually at least a year will elapse before dividends are declared. Thus even granting the orthodox assumption that "some time or other" money distributed may be sufficient to meet the costs of articles produced it could only be pure chance if at any given moment the amount of purchasing power in the hands of the public were exactly equal to the costs of the articles on the market.

It is sometimes asked how is it that if there is a continually increasing difference between costs and purchasing power the economic system has not broken down completely long ago. The first reason is that the banks apply the cure of deflation, i.e., they force companies to write down perfectly good assets to book values much below their reasonable real values. The second reason is that by purchasing securities the banks give the sellers additional purchasing power (a point that will be dealt with later in more detail). The third reason is the discovery of foreign markets. Goods and their associated price values are exported so that the total of price values in the home market is reduced. The fourth, and a very important reason, is the time factor. For the money created by the banks and distributed in advance on those final goods which have not yet come on the market may be, and in boom periods always is, sufficient to cover with prehaps a handsome margin the fundamental disparity between costs and purchasing power. But those retailers who are fortunate enough to have goods available for sale at such a time immediately take advantage of the boom conditions reigning to raise their prices to absorb the superabundance of money, thus causing inflation. Such boom conditions can only be temporary because later on when the goods in respect of which money has been distributed in advance come on the market purchasing power will be deficient unless a new crop of capital goods is put into course of production and additional money is put into circulation. In fact even under the orthodox view of costs and purchasing power it is necessary for the continued working of the economic system that there should be enough goods in the first and third stages to balance those in the second stage. When the factors of saving and the double circuit are taken into account it is clear that fresh capital goods must be produced in geometrical ratio to keep the economic system working.

THE TRADE CYCLE AND THE BANK'S SOURCES OF PROFITS

Let us now collate the information we have gleaned concerning the monetary system and follow out a normal trade cycle from slump to boom and back to slump again. We start from a state of slump, i.e., a state where there is unquestionably a disparity between costs of goods and purchasing power. Traders are unable to sell their goods and they are forced to reduce prices and cut into reserves or capital. A number of them become bankrupt which causes further loss of the public's capital and in some cases a loss to the banks. As a loss to the banks is a lightening of the public's indebtedness, this all helps in reducing the difference between the public's effective purchasing power and the costs of goods. By itself, however, this forced deflation would not be sufficient to turn the tide. But the course of the slump has resulted in a reduction of bank loans to industry and of the corresponding deposits, as the banks have been unwilling to lend to new borrowers or even to continue old loans in the prevailing uncertainty. Hence the banks' ratio of deposits to cash is reduced. They are able to increase deposits by other means and this they can do by purchasing securities. The inducement is an increase in profits. The rate of interest on the securities they buy exceeds the rate they pay on depositors' accounts formed by their very action in purchasing securities. The banks generally prefer loans to securities because the rate of interest is higher but if they cannot grant loans with safety they are glad to turn to securities. The purchasing of securities increases the amount of money in the hands or accounts of the public. It is true that only a particular class of the public gains by this extra money, namely the investing public, but in time some of this money percolates through to ordinary trade channels. The extent by which money is created by the banks in this way can be gauged by the fact to which Mr. Reginald McKenna attested in his speech on the 26th January, this year, to the shareholders of the Midland Bank that since February, 1932, when the country was in almost the lowest depths of depression, deposits had risen by nearly £300 millions, almost solely on account of purchases of securities initiated by the Bank of England and followed by the banks. There is, of course, a secondary effect of these purchases of securities by the banks, the value of securities rises.

After some time the increase of money in circulation combined with the previous deflation and reduced prices is sufficient to make purchasing power approximate to the costs of goods on the market. Trade is restored and confidence is engendered. Manufacturers are prepared to enter on fresh commitments and the banks to finance them. The very action of the Bank of England in purchasing securities is an all clear signal to the Trading Banks that it is safe to advance loans to industry. After a time the amount of deposits in comparison with the banks' cash approaches the ten to one limit and they are forced to sell securities in order that they may continue making loans to industry. They will do this readily because the price of securities has been forced up by the previous purchases initiated by them and followed by the public and the yield obtained on securities is well below that obtainable on loans. The sale of securities by the banks will not cause an immediate fall in their price because the public (which includes trading companies) is making large profits, putting them to reserves and investing these reserves by purchasing securities from the banks. The extent of the boom will depend on the ratio between capital goods in course of construction and consumable goods which are finding their way on to the market. So long as capital goods are produced at an ever expanding rate the boom will continue and may even become hectic. But all the time the A+B theorem is at work making for a potential increasing disparity between costs and purchasing power. Sooner or later the crop of consumable goods emerging on the market exceeds the fresh capital goods in course of construction and the underlying deficiency of

purchasing power and hidden load of debt become revealed. Manufacturers and traders are forced to sell goods at cut prices and to sell securities in order to pay off loans. Conditions are not improved by the action of the banks in attempting to call in loans whose backing which seemed sound enough in the good times is now perilously near the amount of the loan granted. In this period of the trade cycle the amount of deposits will decrease because the banks while calling in loans to industry will be prevented by the prevailing insecurity from making the deficit good by purchasing securities. There is a snowball effect—prices of goods and securities fall—loans are called in; purchasing power is further diminished—more goods and securities are sold at cut prices—values fall further, and so on. The slump carries on until as indicated above the Bank of England turns the tide by purchasing securities.

It will be noticed that in addition to the banks' normal interest profit, i.e. the balance of interest received on loans or securities above that paid to depositors they have two other large sources of profits. The normal cycle of operations involves purchases of securities by the banks at lowest prices and sales at their highest. Secondly, during the onslaught of the slump the security upon which loans have been granted is in many cases reduced in value below the loan itself and this means that the security, it may be a farm or a factory or shares in a company, becomes the property of the bank itself either directly or through a controlled operating company. At this stage the banks will very likely make some book losses. This is reflected in lower profits so that in times of depression the banks suffer in monetary profits as do other trading concerns and they are forced to draw upon their reserves hidden or revealed in order to maintain dividends. But although they are losing in monetary profits they are all the time gaining in physical assets, i.e. they become actual possessors of farms, factories, etc., at the price of the original loan instead of at the value of the asset as a going concern in times of prosperity and this price may be as little as 50 per cent of its real value. For the most part they do not sell these assets in the slump but they nurse them until better times come along. When conditions have improved and there is plenty of money about (created by the banks and issued on loan to producers of fresh capital equipment) the value of these physical assets increases and the banks are able to sell some of these farms, etc., to the public. The banks are business concerns and they do not sell for the amount of the original loan which acquired the property. They get the best price they can and it usually shows a substantial profit. To express the matter shortly the banks are always able to get in on the ground floor and get out before the bottom falls out. Normal accounting methods and the arbitrary conventions in which the banks work make it possible for them to initiate periods of inflation and deflation in such a manner as to make them appear to be the result of natural low. In periods of deflation they become possessed of the assets of the nation. In periods of inflation they are able to realize these assets at a profit and also to make profits on their holdings of securities. To the extent to which these profits are not distributed either as salaries to their employees or as dividends to their shareholders the public is mortgaged to the banks without having the means to pay off the mortgage.

It has been stated earlier that purchases of securities by the banks help to prevent the breakdown of the economic system. As the public becomes more and more indebted to the banks there ensues an increasing deficiency of purchasing power. Now if the banks purchase securities they create deposits which will help to counteract the deficiency. Hence in order to keep things going there is a tendency to encourage any scheme for creating securities for the banks to buy. The banks themselves will sometimes take up the whole or a large portion of a government issue but they also advance money to their customers to subscribe for a portion of it. The customer gains since the rate of interest

on the issue is greater than that on the loan. The banks gain because the rate of interest on the loan is greater than that payable on the deposits resulting from the government's spending the money raised by the issue. It may be that the banks do not take up the whole of an issue and thus obtain the full interest difference between that borne by the new issue and that granted by the banks to their depositors because in this way the fiction is maintained that the issue is subscribed out of public savings instead of out of a new creation of money by the banks themselves. Now all the securities which come into possession of the banks either at first hand, or at second hand via a loan to the nominal owner of the security, are a funding of the public's indebtedness to the banks. Thirty per cent of the budget expenditure of the country last year was in respect of interest on the nation's loans and a large proportion of this amount was payable directly or indirectly to the banks. Hence the popular idea that high taxation is a potent cause of bad trade is quite correct, for the portion of the taxes which represents interest to the banks is potential purchasing power of the public which will be cancelled when it reaches the banks unless redistributed in the form of salaries to bank officials or dividends to bank shareholders. The taxation of the public in order to pay interest on past indebtedness to the banks has now reached very large dimensions and its seriousness is due to the fact that no member of the public is able to escape the burden. That the true nature of this evil is not known is apparent by the support which is given to the principle of high taxation by many well meaning persons, particularly Socialists on the grounds that taxation is merely a passage of money from the hands of one set of persons, usually the rich, into those of another set of persons, usually the poor. The fact that so large a proportion of taxation simply raises costs without being redistributed is not grasped. Furthermore, a completely inadequate picture of the nation's resources is presented and many projects which are crying out to be done and which on physical grounds the country is well able to afford are put aside in the belief that the nation cannot bear the cost.

Distortion between Money and Reality

The flaws in the financial system have had the effect of divorcing monetary policy from physical reality. In some instances the peculiar position has been reached that if a course of action is looked at from the financial point of view one result appears to hold whereas if it is looked at from the physical point of view exactly the opposite appears to hold. Four important examples of this distortion of the truth are worth examining here.

(1) Imports and Exports. There can be no question that from the standpoint of physical wealth a country is richer by its imports and poorer by its exports. Yet we have the anomaly that when a country exports more goods than it imports it is looked upon as having a "favourable" balance of trade and when it does the reverse it is said to have an "unfavourable" balance of trade. That this is no mere question of words is indicated by the fact that every country in the world, rich or poor, is actively engaged in trying to foist its goods on to other markets and to keep out of its own markets the goods of other countries. The reason why countries adopt a policy so stupid when real wealth is considered and so impossible to fulfil when the world is taken as a whole is that in the course of making goods for export money is distributed to work people which helps to make up the existing and growing deficiency of purchasing power in the exporting country, and the total prices in the home market are reduced by the export of the goods made with this money. Hence companies which manufacture goods for the export market are looked upon with favour even when they are doing such a criminally stupid action as to manufacture munitions, armaments and aeroplanes to sell to a country which may use them against the country from which they were bought.

(2) Wealth and Debt. Nature and science have united to produce the potentiality of an increasing real wealth and leisure for every individual. The amount of metallic money mined each year does not keep pace with the expansion of real wealth. Extra money can only be formed by means of bank loans, i.e. by increasing debt. Hence on the one hand we have a surplus of riches and leisure and on the other hand an increase of world debt. As has often been pointed out the richest country is the country which has the biggest National Debt.

APPENDIX "B"

PRINCIPLES OF FINANCIAL REFORM

(Submitted by Mr. Jaques, M.P., and Mr. Quelch, M.P.)

Extract from "The Case for Alberta," published by the Government of the Province of Alberta, 1938 (p. 41-43)

It is not intended to do more than indicate the basic principles of financial reform necessary to rectify the defects summarized above. Once these principles are recognized and accepted as the basis for reform, no difficulty will arise in regard to their application in a specific manner,—

(1) It is fundamental to a democratic social order that the people shall determine the results which they desire from their social organizations.

In order to ensure that financial policy shall conform to the will of the people, and that proper supervision of the system shall be established, a credit authority under the effective control of the government should be established for the purpose.

The administration of the financial system could be left to the banks, providing this was subject to policy control by the people, through the government and the credit authority.

(2) The major defect in the financial system arises mainly from the manner in which capital goods production is financed, causing a chronic and increasing shortage of purchasing power. Reference back to the examination of this feature will show that the community is obliged to surrender the purchasing power distributed to it in respect of its total production in any period. Being in effect charged for its total production for the period, it is unable to meet the accumulating costs carried forward from the past into current prices of ultimate goods coming on the market.

To rectify this error it will be necessary for the deficient purchasing power to be made good. Instead of being called upon to surrender purchasing power in respect or its total production for any period, the community should have to meet the costs only of its consumption of goods in the period.

However, if the difference between the price values of its total production and the price values of its total consumption for the period was made good to the community, there may be an excess of purchasing power, as the unconsumed production for the period is, in the main, in the form of capital goods.

To achieve a balance between purchasing power and prices of ultimate goods on the market, additional purchasing power should be made available to the community at the rate at which the costs carried forward from past production appear in the prices of ultimate goods in the market.

If, therefore, prices to consumers were adjusted so that selling price bore to the retail price as now computed the same ratio as total consumption bore to total production, retailers being reimbursed for the difference by means of financial credits created for the purpose, the deficient purchasing power would be issued to the public at the rate which was required to ensure a perfect balance between available purchasing power and total prices of goods on the market.

Moreover, the additional purchasing power would be injected into the system by means of compensated prices in a manner which would preclude any inflationary results. There would actually be a fall in the price level of consumers goods corresponding to the increase in monetary supply.

The specific method of application of this general proposition would be dependent upon the requirements of the situation. It is sufficient for present purposes to indicate how the fundamental major defect in the system can be rectified. Moreover, minor defects mentioned in regard to bank interest and the element of profit in respect of which purchasing power is not distributed, would automatically be adjusted in the application of the compensated price formula.

(3) The monetary stringency imposed by an arbitrary restriction of the note issue is a denial of the purpose for which the monetary system exists—namely, to facilitate the operation of the economic system to provide goods and services as, when and where they are required. The monetary system should, therefore, merely reflect what is happening in the economic sphere. It should not control economic activity, but rather be controlled by it.

(4) Provision for social dividends can be made from the fund of financial credits necessary to make good the general deficiency of purchasing power. Dividends expended in the purchase of ultimate commodities will automatically increase consumption. The price ratio for calculating the compensated price being:—

$$\frac{\text{total price values of consumption}}{\text{total price values of production}}$$

an increase in consumption due to the issue of dividends will automatically result in a smaller discount, thus maintaining accuracy in the general adjustment.

(5) Similarly, instead of reducing the purchasing power of individuals by taxation and proceeding to increase purchasing power by the above methods—drastic tax reductions can be granted at the expense of smaller dividends and a smaller price discount. With this bound up the question of debt adjustment in a general scheme to deal with the accumulated results of the defective financial system.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 19

Tuesday, May 16, 1939

WITNESS:

Mr Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

TUESDAY, May 16, 1939.

The Standing Committee on Banking and Commerce met at 4 o'clock, p.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Clark (*York-Sunbury*), Cleaver, Coldwell, Deachman, Donnelly, Fraser, Hill, Jaques, Kinley, Kirk, Landeryou, Macdonald (*Brantford City*), McGeer, Martin, Mayhew, Moore, Quelch, Raymond, Ross (*Middlesex East*), Stevens, Tucker, Taylor (*Nanaimo*).

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Mr. Towers filed statements in answer to questions by Mr. Cleaver and Mr. McGeer, the said statement being incorporated in this day's evidence.

Examination of Mr. Towers was continued.

At 6 o'clock, p.m., the Committee adjourned until tomorrow, Wednesday, May 17th, at 11.15 p.m.

R. ARSENAULT,
Clerk of the Committee

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

ROOM 277,

May 16, 1939.

The Standing Committee on Banking and Commerce met at 4 o'clock. The chairman, Mr. W. H. Moore, presided.

In attendance: Mr. GHAHAM FORD TOWERS, Governor of the Bank of Canada.

The CHAIRMAN: Order, gentlemen, the governor has a statement to make.

Mr. TOWERS: Mr. Chairman, with the permission of the committee, I would like to put on the record replies to questions asked by Mr. Cleaver at the last meeting of the committee. I would also like to put on record a brief memorandum in response to a question from Mr. McGeer showing the Bank of Canada cash reserves just prior to March 11, 1935, when the Bank of Canada commenced its operations, as well as a table which shows the changes which have taken place since and which have affected chartered banks cash reserves during the time since March 11, 1935.

(1) *Dominion-provincial Government Deficits*

Comparable and complete figures on the deficits of Dominion and provincial governments are not available from the published statistics. During the years 1930-38 the increase in Dominion-provincial debt less sinking funds, provides a rough indication of the amount of deficits, probably exceeding the actual deficit figure by about $200 mm. over the nine-year period.

INCREASE IN DOMINION-PROVINCIAL DIRECT AND GUARANTEED DEBT LESS SINKING FUNDS

During Fiscal Years nearest to Calendar Year
(Millions of Dollars)

1930	1931	1932	1933	1934	1935	1936	1937	1938	Total
355	370	225	220	235	305	140	135	185*	*2,190*

* Estimate.

(2) *Expansion of Credit by the Bank of Canada*

The increase which Bank of Canada operations have produced in the cash reserve of the chartered banks, is shown in the table which has been prepared in answer to Mr. McGeer's question.

The changes in the volume of money which have accompanied the expansion in banks' cash reserves are shown in the following statement.

(Millions of Dollars)

	Mar. 31, 1935	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1937	Dec. 31, 1938	Total Increase
Canadian deposits ..	2,034	2,208	2,323	2,387	2,498	464
Currency circulated ..	163	199	220	238	238	75
Total	2,197	2,407	2,543	2,625	2,736	539

(3) *How much further could the Bank of Canada go to expand credit*

Theoretically, (*a*) on the basis of gold held as at May 10, 1939, the Bank of Canada could expand its note and deposit liabilities by $415 mm. without reducing the gold reserve ratio below 25%.

Apart from a possible increase in publicly held Bank of Canada notes, such an increase in note and deposit liabilities would increase banks' cash reserves by a similar amount.

(*b*) on the assumption either that the 25% minimum gold reserve ratio clause were suspended or that the Bank of Canada bought additional gold, there is no definite limit as to how far it could go in expanding banks' cash reserves.

CHARTERED BANK CASH RESERVE JUST PRIOR TO MARCH 11, 1935

Gold coin and bullion	$ 37.5 mm.
Dominion notes	$177.8 mm.
Total	$215.3 mm.

This $215·3 mm. of chartered bank cash reserves was transferred by the chartered banks to the Bank of Canada in exchange for Bank of Canada notes and deposits at the Bank of Canada. Involved in the setting up of the Bank of Canada there were various transactions affecting the amount of these cash reserves. The effect of these transactions and subsequent operations of the Bank of Canada on chartered bank cash, are shown in the following table.

[Mr. Graham Ford Towers.]

EFFECT OF CHANGES IN BANK OF CANADA STATEMENT ON CHARTERED BANK CASH RESERVE

(Millions of dollars)

—	Mar. 11/35 – Dec. 31/35		Dec. 31/35 – Dec. 31/36		Dec. 31/36 – Dec. 31/37		Dec. 31/37 – Dec. 31/38		Mar. 11/35 – Dec. 31/38	
	Changes—Cash		Changes—Cash		Changes—Cash		Changes—Cash		Changes—Cash	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Gold Coin and Bullion	73·9	......	......	1·1	·4	......	6·1	......	79·3	......
Silver Bullion	·7	......	·6	......	·7	......	......	3·0	......	1·0
Sterling and U.S.A. Dollars	4·2	......	4·9	......	5·8	......	13·5	......	28·4	......
"Other Securities"	......	......	......	......	12·2	......	......	12·2	......	......
Dominion and Provincial Government Securities.	......	35·6	46·0	......	13·6	......	11·6	......	35·6	......
Dominion Government Advances	3·5	......	......	3·5	......	......	......	......	......	......
Active Note Circulation	......	16·8	......	28·8	......	23·6	......	7·0	......	76·2
Dominion Government Balances	......	17·9	......	1·7	7·7	......	......	5·6	......	17·5
Capital and Rest Fund	......	5·2	......	5·7	......	·6	4·5	......	......	7·0
Other Net Changes	·1	......	1·9	......	......	1·2	......	·4	·4	......
	82·4	75·5	53·4	40·8	40·4	25·4	35·7	28·2	143·7	101·7
Deduct	75·5	......	40·8	......	25·4	......	28·2	......	101·7	......
Increase in Chartered Banks' Cash Reserves*	5·9	......	12·6	......	15·0	......	7·5	......	42·0	......

*Notes of and deposits with the Bank of Canada.

I should like to add very briefly that it is probably not in general a good thing that a central bank should publicly make any claims in respect to what its monetary policy has accomplished or anything of that kind. Of course, giving evidence to this committee is a different matter. I have tried, in response to requests from the committee, to indicate some of the major effects of the policy which has been followed. It is always difficult to define the exact effect because the obverse of the medal cannot be seen; but I am inclined to think that had there been no expansionery policy followed in Canada that interest rates would have been a great deal higher than they are, that governments would have found it a good deal more difficult to borrow to finance their deficits or capital expenditures, and that repatriation of foreign debt, other things being equal, would have been considerably more difficult. I think that in fact the repatriation would, probably, have taken place, but that the adjustment which would have made it possible would have taken the form of a higher exchange value for the Canadian dollar, and that rather than a premium on U.S. funds we might have seen a discount on U.S. funds and a premium on the Canadian dollar. To that extent, I should think, although I cannot prove it, the policy which has been followed has had an influence on exchange.

Finally, I would like to add this—and I shall not take more than two minutes because I know Mr. McGeer wishes to start—

Mr. McGeer: Go right ahead.

Mr. Towers: —when the MacMillan commission was taking evidence in Canada I think various people suggested to them that one of the handicaps which a central bank in this country would face would be a difficulty of exercising control due to what they felt to be the narrowness of the Canadian money market, the lack of the form of money market organization which they have in London. I never felt that that would be the case—I mean I did not agree with that view, even in pre-Bank of Canada days—and I expressed such views to some of the people who were working for the commission. I think it has turned out to be correct that the central Bank of Canada has not been in any way handicapped due to what some people regarded as the narrowness of our money markets. In fact, as anybody who examines our weekly statements will see, the variation in our total holdings of securities from time to time has been extremely substantial. Considered as a percentage of total assets and applying that percentage for purposes of comparison to, say, the statement of the Bank of England or the federal reserve system in the United States, one would have to see in those other two countries fluctuations in their security portfolios which they would consider of enormous magnitude, even to equal those which have taken place in Canada. And finally may I say this, that I believe that in no country and at no time have there been bank and market responses to central bank action and central bank policies, more complete, more full and more in line with anything that a theorist might have anticipated, than have taken place in Canada. I speak only of the past, because it would be foolish to say that that would always be the case. I do not know, but I expect that it will. But it certainly is the case that so far as monetary policy depends upon the control and influence exercised by the central bank, that has worked in Canada more accurately than in most countries that I know of, and certainly as fully and as accurately as in any country in the world.

By Mr. Taylor:

Q. There is not very much past to speak of, is there, Mr. Towers?—A. It is true I can only speak of the time since the existence of the Bank of Canada.

Q. Even so, central banks are modern institutions?—A. Oh, yes.

[Mr. Graham Ford Towers.]

By Mr. Cleaver:

Q. I wonder, Mr. Towers, if you have answered the two other questions which I asked earlier in our meetings in regard to non-competitive revenue producing works?—A. No, I have not; I have, evidently, slipped on that.

Q. I will hand them to you again.—A. Right.

By Mr. McGeer:

Q. Now, Mr. Towers, you are aware, of course, that with the establishment of the Bank of Canada we did lay down some very drastic new principles as a matter of policy, and I think that in view of what you have said to-day I would like to direct your attention to what was contemplated when the establishment of the Bank of Canada was being considered by the Canadian parliament. For example, the Minister of Justice, Hon. Ernest Lapointe, then in opposition, on the debate on the Bank of Canada bill on June 21, 1934, is reported at page 4154 of Hansard as saying:—

> Before the members of the committee reach a decision as to which way they will vote on this motion—of course, they have already done so —I would suggest to every one a careful reading of the preamble of this bill. The preamble states quite definitely what will be the functions of the institution which we are creating to-day. Those functions will be to:—
>
> > —regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion.
>
> In other words, we are entrusting the national life of Canada to the body of men who will guide, dominate and control these various functions which are enumerated in the preamble of this bill. Under these circumstances I cannot but agree with the views of Sir Thomas White, who was at one time a distinguished Minister of Finance in this country, who was one of the commissioners appointed by the government to study this question of banking and monetary matters in Canada, who himself stated that he was opposed to the establishment of a central bank and reported against the establishment of such a bank, but who stated emphatically that if there was to be a central bank it should surely be publicly owned, a bank owned by the people of Canada.

The Minister of Justice further stated at page 4155 as follows:—

> I am free to admit that I would rather have held the opinion that this should be a privately-owned institution publicly controlled, before I read the bill as it is and heard the discussion and knew all the functions that are going to be those of this public institution. Under the circumstances, the central bank being what it is going to be, I think I should be derelict in my duty if I did not support the principle of public ownership.

So that if that view is correct it is, in part, through the action of the Bank of Canada that the economic life of the nation is influenced for good or for ill.—A. So far as the economic life is affected by monetary policy.

Q. Let me go a little further and quote another distinguished member of the House of Commons of that day who was recognized as the financial critic

in the opposition and the financial critic of the government—I refer to the Hon. Layton Ralston—who at page 4184 of Hansard on June 21, 1934, is quoted as stating:—

> . . . in view of the fact that the committee have refused the amendment providing for government ownership this amendment is designed to endeavour to do the next best thing, and ensure governmental or public control.

Surely, now, that the Liberal party is in power we are entitled to have from a Liberal government the next best thing with regard to the ownership of that bank and the carrying out of its functions.

Dealing with those functions, Mr. Ralston said:—

> I submit, Mr. Chairman, that the Prime Minister and whoever drafted this legislation, and, with all due deference, some of the commissioners who made the suggestions which appear as a schedule, have for a moment forgotten that after all this is a state function, that the control of credit and currency is the biggest and most important public utility in the economic activities of the Dominion of Canada. I am not one who necessarily champions public ownership at all times and in all places, but I say there are certain things which should be under public ownership, or public control and certainly the very first and most important of those is the institution which controls, which guides and which directs the whole economic life of the Dominion.

Now, do you find anything wrong with Mr. Ralston's statement that the control of credit and currency as a function of the Bank of Canada is the biggest and most important public utility in the economic activities of the Dominion?—A. I think it would be wrong for me to make any comment in relation to the character of the legislation which governs the Bank of Canada, and perhaps it was not your thought that I should.

Q. No. What I was pointing out to you is this, that this parliament has set up the Bank of Canada, it has gone to the point of making it a publicly owned institution; and the hope of parliament is, as I understand it, that the bank will fulfill in the exercise of the powers given to it those duties and responsibilities which will re-act to the benefit of the Dominion in maintaining the circulation of the necessary medium of exchange to assist going concern activity, at least in so far as public enterprise is concerned?—A. In so far as the whole economic life of the nation is concerned, I would say; and certainly the desire to accomplish that result must be present, and is present, in the minds of the officers and directors of the bank.

Q. Now, following out that same idea, the then leader of the opposition, now the Prime Minister, under whose administration the bank has become a publicly owned institution declared, " A central bank is necessary to determine the supply of currency in relation to the domestic, social and industrial requirements of the Canadian people."

Later on in the same debate he said:

> As I said the other evening, once a nation parts with its control of currency and its credit, it matters not what makes the nations laws; usury once in control will wreck any nation. Until the control of currency and credit is restored to government and recognized as its most conspicuous and sacred responsibility, all talk of the sovereignty of parliament and of democracy is idle and futile.

Now, I quote these statements to you because we have here three distinguished representative public men declaring in the House of Commons that the Bank of Canada performs first such functions in relation to the economic life of the

country that it must be publicly owned and responsible to parliament; second, because its functions make it the biggest and most important public utility in the life of the nation; and third, that its power of controlling the use of currency and credit as a governmental institution is the most conspicuous and sacred responsibility of government and until such time as that control is exercised by the institution responsible to parliament and under the control of parliament all talk of democracy and the sovereignty of parliament is idle and futile. Now, it is because of these concepts—with which I have no doubt you agree as to the importance of the functions of the bank——A. I do.

Q. That we are here to ascertain just how we can improve the system of controlling the issue and circulation of currency and credit; because I think we are all agreed that up to now we have not got anything like the results that we hoped for. Now, it may be, Mr. Towers, that we are getting all that we can get from the Bank of Canada.—A. Through monetary policy.

Q. Through monetary policy. Well then, if that be so, we have got to move to some other policy or to some other program of activity to improve general conditions in the Dominion. But I am not sure that we have done all we can do through the Bank of Canada as yet.—A. Naturally, I believe that so far as monetary policy can influence the economic life of the nation that what has been done up to date represents all that could usefully have been done. If I did not believe that I would not be here.

Q. Well now, when you speak of the easy money policy would you just give me a simple statement of what you mean by the easy money policy?—A. I mean a monentary policy which produces a keenness to loan and invest, and a willingness to do so at rates which are relatively low.

Q. Now, when you say a keenness to loan; what do you mean by that?—A. A desire to make loans.

Q. On the part of whom?—A. On the part of the banking system.

Q. On the part of the merchant banks?—A. On the part of the merchant banks.

Q. On the part of the merchant banks; and a desire to invest—does that apply to the merchant banks as well?—A. That applies to the merchant banks as well. Then, secondly, there is a further result of such a policy, that having implemented, so to speak, a desire to loan or invest and in the circumstances of the last four years it has been invest rather than loan—

Q. Yes?—A. In implementing that desire the banking system increases the amount of bank deposits, and you then have such further pressure as the possession of these deposits may exercise in the direction of private investment or spending.

Q. Now, you get that result by what function of the Bank of Canada?—A. By that function which enables us under existing conditions to control absolutely the amount of chartered bank cash reserves.

Q. But how do you get the result which you call the easy money policy?—A. By increasing the amount of chartered banks' cash reserves through the purchase of additional assets for the Bank of Canada.

Q. That is one way of doing it?—A. Yes.

Q. Is there any other way of doing it?—A. The cash reserves of the chartered banks cannot be increased except by an increase in our assets, under existing conditions.

Q. But you normally have under the Bank of Canada Act powers to loan the chartered banks Bank of Canada bills or bank cash?—A. We can make loans to the chartered banks. Incidentally that increases our assets, so it falls in under that all-embracing term.

Q. Yes, but you have that power under the Act?—A. Yes.

Q. And in addition to that power you have the power to change the rate of interest at which you loan?—A. Yes.

Q. And in the normal operation of a central bank one of the regulating powers to either increase or decrease the merchant banks' holdings of Bank of Canada bills was to raise or lower the interest rate charged the chaartered banks by the Bank of Canada for the cash?—A. Under existing conditions and for a number of years that system, shall I call it, has become somewhat out-moded.

Q. Out-moded—in other words so far as that feature of control is concerned the merchant banks no longer find it necessary to borrow bank cash from the Bank of Canada?—A. We have made it unnecessary for them to do so. At a later stage, if as and when there is ever a boom situation, you would find that that function, that power, would probably come into operation again.

Q. Might I put it to you this way: in the desire of the Bank of Canada to open up development through its easy money policy it has put out so much money that it is no longer practical or expedient to charge the merchant banks any rate of interest for the cash which they borrow?—A. Oh, not at all; I do not think that follows at all, Mr. McGeer.

Q. Well, how are you doing it?—A. The banks have a cost in obtaining and holding that cash.

Q. No, but I am talking about the bank rate policy and if I might be pardoned I would like to draw your attention to the reason why I am referring to it, because it is a matter which came to us in the House of Commons.

By Mr. Tucker:

Q. Just following up that point. You say there is a cost in holding that money; that is what they pay to depositors in interest?—A. What they pay depositors in interest, and such additional charges which they have through the larger volume of deposits, the operating charges.

By Mr. McGeer:

Q. In any event, at the present time there is no bank rate operating, and consequently no revenue to the Bank of Canada from that source?—A. No, but of course we have the revenue arising from our enlarged holdings of securities.

Q. But you would not lose anything if in addition to that you had revenue from the banks?—A. If in addition to that the banks also borrowed from us we would get more.

Q. How much more? But you have in your desire to get the banks supplied with cash operated on your open market policy to the point where they have ample cash to carry their deposits, their investments, and a surplus for loans if they are satisfactory?—A. In other words, their cash ratio is ample in relation to the present amount of deposits and leaves room for some further expansion. Incidentally, I may say that bank borrowings from the central bank are dependent on the banks taking the initiative. That was the situation under the old regime and under the Finance Act. By open market operations the central bank takes the initiative, something which was impossible under the old regime.

Q. Well, in any event, there has been a suspension of the operation of charging the banks a rate of interest for borrowings?—A. Suspension, Mr. McGeer?

Q. Well, abandonment, if I might use the term.—A. We have taken the initiative.

Q. But you told me a minute ago that the system was now out-moded?—A. Out-moded, by reason of the fact that we have taken the initiative on monetary expansion and have increased the banks cash and, incidentally, as I have said before, you will find that the same thing has been done in various other countries.

Q. Well now, when did your easy money policy commence?—A. On the day we opened our doors.

Q. And when has it been changed?—A. There has been an increase in the chartered banks' cash each year since we opened.

[Mr. Graham Ford Towers.]

Q. Has there been any change in your monetary policy or in your easy money policy since 1935?—A. The figures of our bank statement are really the most accurate possible reply to that question, and those indicate that each year there has been an increase in the chartered banks' cash reserves, and therefore indicate a steady continuance of an easy money policy.

Q. In 1935, as I take the figures from your statement, the Bank of Canada cash in issue was $213,000,000. Some of these figures are averages for nine months, but I think they are satisfactory for our purpose. In 1935 it was $213,000,000?—A. Yes.

Q. In 1936, $225,000,000?—A. Yes.

Q. In 1937, $241,000,000?—A. $240,000,000, I have it here. However—

Q. 1938, $255,000,000, and 1939 at January $271,000,000?—A. Yes. These figures are the averages of Wednesdays. $271,000,000 in January is right. Incidentally, the year-end situation affects bank cash from about September or October until about February. That is the period during which the fiscal year ends of the banks come around, and one will usually find that the bank cash holdings and their cash ratios are larger at that time.

Q. Then we have a very decided drop from January?—A. That is right. It is the disappearance of that seasonal, if I may call it "seasonal", situation. So that the proper thing is really to compare any months in the year with the same months of the preceding year.

Q. For instance, in November, 1938, it was up to $278,00,000?—A. Yes. That is window dressing, Mr. McGeer.

Q. What do you mean by "window dressing"?—A. Building up cash for purposes of the annual statement. I do not suggest that it is a wrong thing to do. As a matter of fact, if it is recognized as a testing of a liquid position, if it is fully recognized and explained to be that, then it is a perfectly satisfactory thing. If it is a suggestion that that year-end cash represents the average for the year, then it would be a wrong thing.

By Mr. Cleaver:

Q. How is that window dressing accomplished?—A. The banks at that time, you will find, allow treasury bills which they hold to run off, or they may even try to sell some before the maturity date of those bills.

By Hon. Mr. Stevens:

Q. Or contract loans?—A. No.

By Mr. Cleaver:

Q. It does not have any effect on business, does it?—A. None whatever. They allow bills to run off. At that time we greatly increase our holdings in those bills with the result really that the banks have more cash and we have more bills. At a later date in the year that position is probably reversed again.

By Mr. McGeer:

Q. Those figures, I conclude, evidence the fact that since the Bank of Canada opened in 1935 up until the present time there has been a consistent easy-money policy on the part of the Bank of Canada?—A. That is correct.

Q. And that there has been no change in that policy in any of those years?—A. That is correct.

Q. So that we have to-day and have had during all those years the same policy on the part of the Bank of Canada as it opened with?—A. Yes.

Q. The result of that open market easy-money policy has been to steadily increase bank deposits?—A. Yes.

Q. And the figures indicating that increase are,

1935	$2,108,000,000
1936	2,213,000,000
1937	2,357,000,000
1938	2,420,000,000

A. $2,412,000,000.

Q. 1938, $2,412,000,000, and 1939, $2,485,000,000.

Mr. CLEAVER: What months are you taking?

Mr. MCGEER: These are the averages. I have not got them worked out. I am taking a figure which I am suggesting reflects the general policy.

Mr. TOWERS: Yes.

By Mr. McGeer:

Q. If there is anything wrong with those figures as regards that the governor will say so.—A. No, they are correct.

Q. We do not get the same happy result when we come to public current loans, do we?—A. We do not.

Q. For instance, the result in that regard was,

1935	$829,000,000
1936	699,000,000
1937	732,000,000
1938	786,000,000
1939	792,000,000

A. In January, and $801,000,000 in March. Incidentally, that change between 1935 and 1936, that very substantial change, as you may remember, was very largely influenced by the liquidation of the wheat carry-over.

Mr. LANDERYOU: Mr. McGeer, that indicates an increase of over $400,000,000 in bank deposits; are you going to go into the average increase in various brackets?

Mr. MCGEER: Yes.

Mr. LANDERYOU: All right.

By Mr. McGeer:

Q. If you will notice that in 1939 and 1938, that is, the beginning of January, 1939, and the average for 1938, even including the later increase in 1939, the public current loan is very substantially below what it was in 1934; that is correct, is it not?—A. That is correct. As I say, one of the reasons for that change has been the liquidation of the wheat carry-over. One will also find a certain clean up of loans in other industries, notably the pulp and paper industry.

Q. In so far as the control of the issue of currency and credit in terms of domestic needs, in terms of the social, industrial and economic needs of the people of Canada, are concerned, if public current loans are any indication five years of Bank of Canada operations have not brought us back to as healthy a condition as we were in in 1934?—A. You could not take that from the figures, no, because the liquidation of unsatisfactory and stagnant loans due to carry-overs or accumulations of that kind may mean that the present figure of $801,000,000 of loans represents more going concern activity than the $869,000,000 of 1934. In any event, of course, I think the proper way to judge industrial activity is by the figures of physical output rather than of bank loans.

[Mr. Graham Ford Towers.]

Hon. Mr. STEVENS: Mr. McGeer, to me this is tremendously important. Suppose we go back, say, to 1926 and make a comparison? For instance, in 1926, if I recall rightly, there were $883,000,000 in current loans. During the last few years they have been less than $800,000,000.

Mr. McGEER: Yes.

Hon. Mr. STEVENS: It strikes me that if we could ascertain the reason for that stagnant condition over a period of thirteen years—although in the intervening period it went up as high as $1,200,000,000—that is the crux of this whole business. Could you explore that?

Mr. McGEER: What I tried to avoid, and I think Governor Towers will agree with me, is that some of the figures during the pre-collapse period on bank loans, particularly in 1928 and 1929, reflect more than an unhealthy condition.

Hon. Mr. STEVENS: I agree.

Mr. TOWERS: The 1928 and 1929 figures do, yes.

By Mr. McGeer:

Q. I took the figure of 1934. Having gone from 1929 to 1934, I thought we would have by that time pretty well cleared up the unstable speculative loans and, to some extent, the bad debt loans. I think by 1934 we had gone pretty well through the period of what I might term bank loan liquidation.—A. No, there was a fair amount left even in 1934. As I say, there was the heavy wheat loan to the government; at least, under government guarantee, and there was probably still a fair volume of loans on securities to individuals coming in this category of current public loans. The great rise in the stock markets which took place, commencing April of 1935 and running through until 1936 and 1937, probably produced further liquidation of loans of that character.

Hon. Mr. STEVENS: My figure for 1926 was wrong. The correct figure is $983,000,000.

By Mr. McGeer:

Q. Then it went up to $1,200,000,000 in 1929 and then fell off steadily to the low figure of 1934?—A. 1936—$699,000,000.

By Mr. Tucker:

Q. 1926 is regarded as the normal year for the purpose of figuring, is it not?—A. Yes.

Hon. Mr. STEVENS: Pardon me, Mr. McGeer, for interjecting here. In 1926 we had in current commercial loans $983,000,000. That is thirteen years ago. There has been a lot of expansion of one kind and another in Canada since then, in spite of the depression, leaving out the abnormal bulge in 1929, and yet in 1938, in December, the figure was $731,000,000. There must be some explanation for that which we have not secured.

Mr. McGEER: Mr. Stevens, the idea I had—and I think the figures I am using are sufficient to get the same field under observation—is the same as you have in mind without having the interfering factors of what you might call speculative periods or unstable advances. I think the point you have in mind will come into the picture just as clearly with the figures I am using which are not probably as expressive as the larger figures but which really tell the same story on a less controversial basis, if I might so suggest.

Mr. LANDERYOU: I think if we knew to which industries the money was advanced it might help us.

Mr. McGEER: I think that would be a very interesting field of exploration, but I doubt very much that without some very exhaustive research work we could get anything but guesses from any of the statistics that I know are available.

Mr. LANDERYOU: Do you not think that information should be made available to us?

Mr. McGEER: I think we could come to that. What I wanted to continue with, Mr. Towers, was this—

By Mr. Tucker:

Q. When you speak about the wheat loan being replaced—A. Being liquidated.

Q. Liquidated. Would there not be offsetting loans to the mining industry, so that so far as the country in general is concerned there has been actually a decrease since even 1934?—A. No; bank loans to the mining industry have never been large. They are relatively negligible.

Q. Have you the figures of loans to different industries?—A. Yes; in recent years, sometimes bulked together in general categories of manufacturing and so on. That is a report which is furnished to the government by the banks on October 31 of each year and published by the government.

Q. Where is it published?—A. It is in the *Gazette* and also issued as a report by the Department of Finance.

By Mr. Landeryou:

Q. Mr. Towers, could you give us any information as to what industries the bulk of these loans were made? If you have any information on that, I think it would be very valuable.—A. This is the report that I have mentioned, as of October 31, 1938. It shows:—

	Millions of dollars
Farmers' loans, cattle loans, fruit raisers, etc.	56
Loans to grain dealers, grain exporters and seed merchants	91·7
Total agricultural loans	148·5
Financial loans in various categories	249·8

That is, call loans, loans to individuals against securities and so forth.

Merchandising, wholesale and retail	133·7
Manufacturers of and dealers in lumber, pulpwood and products thereof	75·2
Other manufacturing	138·4
Mining	8·9

Incidentally, of course, that not only includes gold but coal, base metals and so forth.

Fishing	8·9
Public utilities, including transportation companies	24·9
Loans to building contractors and others for building purposes	39·2
Municipal governments and school districts	114·5
Provincial governments	22·8

Those with certain sundry loans sum up to a total at that time of one billion and 58 millions.

Q. What year was that?—A. October 31, 1938.

Q. Have you a comparison there between that year and the depth of the depression—1926?—A. No. These figures commence on October 21, 1934, so I have here those five years; but they were not compiled by the banks prior to that time. I have here estimates which we have made ourselves. I cannot guarantee their accuracy, but I think they come fairly close to being right. Those estimates start with 1927.

[Mr. Graham Ford Towers.]

Q. I think if you would put them on the record as an appendix, that would be the better way of doing it. We could have them put into the report rather than have Mr. Towers read them now. Then Mr. McGeer could go on with his line of questioning.—A. Yes, we will put those in. I shall have to put at the top that it is an estimate, as I am not at all sure of the accuracy; but I believe it is substantially correct.

Q. Thank you. I should like to have that.

The CHAIRMAN: All right. Mr. Mayhew has a question.

By Mr. Tucker:

Q. Up to 1934 you are speaking of. Then subsequent to that time it is accurate?—A. Subsequent to that time it is accurate.

The CHAIRMAN: Go ahead, Mr. Mayhew.

By Mr. Mayhew:

Q. Mr. Towers, is it not a fact that at a time like the present when business generally is on the decline, it requires less money to carry on that business both because the turnover is smaller and because prices are lower?—A. That is true.

Q. Even if your turnover in volume was as great, your price structure being less, your loans are going to be automatically less as well. Is that not part of the answer?—A. That is part of the answer.

Hon. Mr. STEVENS: It does not answer the comparison with 1926.

Mr. TOWERS: On the basis of difference in prices, it means that loans are more or less the same as they were then. Nevertheless, I consider they are too low.

Hon. Mr. STEVENS: Absolutely.

Mr. TOWERS: But due to business conditions. Incidentally, as these figures show, on the pick-up which was taking place in 1936 and during most of 1937, quite a rapid upward movement in bank loans took place at that time.

By Mr. Deachman:

Q. In 1937?—A. In 1937.

By Mr. McGeer:

Q. Mr. Towers, let us go on with my examination. Taking again the years 1934 and 1938, the increase in the merchant banks' holdings of dominion and provincial government securities was $459 million?—A. Between 1934 and 1938? I dare say that is correct. Those figures sound correct to me.

Q. I am taking that from your own figures.—A. Yes.

Q. And the increase in your bank deposits was $483 millions; so that practically all of the increase in the bank deposits was reflected in purchases of government securities?—A. Yes.

Mr. TUCKER: More than all of it, was it not?

Mr. McGEER: Oh, no.

Mr. TOWERS: Very close.

Mr. McGEER: As a matter of fact, there is $114 million of other investments there; but, roughly speaking, that is correct.

By Mr. McGeer:

Q. During that period your increase in active circulation of Bank of Canada notes held by the chartered banks was how much?—A. The increase in active circulation in the hands of the public?

Q. Yes.—A. Of our notes alone?

Q. Yes. It was $57 million, I take it?—A. In 1935, the average, we will say, was $49 million; in December, 1938, $115 million. The difference there is about $67 million.

Q. $67 million?—A. Yes.

By Hon. Mr. Stevens:

Q. That is actually in the hands of the public?—A. Actually in the hands of the public. That is not an awfully good comparison, because I have taken an average figure in 1935. I really should compare it with the average for 1938.

By Mr. Tucker:

Q. Why is that called an active note circulation? What it means is that it is the amount in the hands of the public, does it not?—A. Yes. "Active" is a term which is used as a matter of convenience. It is active in the sense of being in people's pockets rather than lying in a till in a bank.

Mr. McGeer: It is their pocket exchange money, presumably.

By Mr. Tucker:

Q. In other words, if a period of hoarding started that would be increased and it would not be active at all?—A. Yes.

Mr. McGeer: But there are no signs of hoarding.

Mr. Tucker: Hoarding may be the cause of that increase. It is possible.

Mr. Towers: I see no signs whatever of it.

By Mr. Tucker:

Q. How would you tell?—A. I think you could smell it.

Q. I do not see how you could possibly tell.—A. Well, for example, take the experience of all bank managers across Canada. Take for example the experience of members of the House of Commons and the Senate who see great numbers of people across the country. If there was in fact a tendency on the part of the people to hoard, I think we would hear something about it.

Q. Why would people need that much more money to do their business?—A. What I have given there is the sum total of the increase in our active circulation. The active circulation of chartered bank notes has decreased during that period, so that the increase in total active note circulation in the hands of the public between 1934 and 1938 is $42 million.

Q. Have you any reason to believe that the people are using that much more money to do business?—A. If you compare the volume of business in 1934 and 1938, I think you will find that there is good reason for that percentage increase in the note circulation. I will not say it exactly agrees.

By Mr. Kinley:

Q. Mr. Towers, is the financing of the automobile industry carried out with all Canadian money?—A. I think part of it would be United States money. How much I do not know.

Q. Do many exporters in Canada do their banking business in the United States?—A. No.

Q. Some do.—A. Some wheat business is financed through New York.

Q. Some lumber business is done through Boston, is it not?—A. It used to be. I did not know that anything very much was done there now.

Q. The financing of the automobile business is a big item?—A. I think a good portion, a large portion of that, is provided by Canadian bank loans. But it may be that, in the case of some of the financing corporations identified with large companies, a certain amount of capital may be provided from the States. I cannot speak accurately as to that.

[Mr. Graham Ford Towers.]

By Mr. McGeer:

Q. Coming back to our proposition again, let me put this question to you. The result of the increase in bank cash with its result in the increase in bank deposits has been in the main confined to an expansion through the purchase of government securities by the merchant banks?—A. Yes.

Q. Since the Bank of Canada opened, we have increased Bank of Canada notes held by the chartered banks by, roughly, $42 million. That happens to be the same figure that you have given.—A. That is the total of their cash reserves, both notes and deposits.

Q. Yes; which was enough to purchase with increased bank deposits the amount of government securities which have been purchased by the banks?—A. Approximately, yes.

Q. On a basis of an expansion of Bank of Canada cash of ten to one?—A. Yes.

Q. So the result is that the Bank of Canada has supplied the cash, and Canadian banking practice permits the expansion of that cash into bank deposits that the banks have used to purchase their increased holdings of governmental securities?—A. Having in mind that the ratio on which they operate—that is, the ratio of cash to deposits—is about 10 per cent, it does follow that an increase of $10 million in their cash will enable them to add $100 million to their assets and to their liabilities.

Q. Then is this not a fair assumption or is it not a sound conclusion: under this easy-money policy the Bank of Canada supplies cash to the merchant banks free, in so far as any interest charge is concerned or cost for the actual money?—A. No, that is not the case. We buy additional securities. We obtain the earnings on those securities. As a result of our purchase; the deposits in the banks will increase, if we purchase from an individual.

Q. Yes?—A. On those increased deposits the chartered bank or banks will have to pay interest, and they will have to pay the cost of servicing those deposits.

Q. Yes. I would say that is another branch of the matter, if I might be permitted to intervene. But what I am saying is——A. But it is the case that that additional cash has not come to the chartered banks free of cost.

Q. No. But, in any event, so far as anything that the chartered banks pay to the Bank of Canada direct is concerned, it is free of cost?—A. The only way in which they would pay anything to us direct would be if they borrowed.

Q. Yes, but they do not borrow?—A. They do not borrow by reason of the fact that we have pursued an easy-money policy, taking the initiative, and have made it absurd for them to think of borrowing.

Q. Of course; because you have made it possible for them to get money in the form of Bank of Canada bills?—A. We have not only made it possible for them to do that. In fact, we have forced it on them.

Q. You have forced it on them?—A. Yes; at a cost to them.

Q. But they do not pay any interest for it?—A. Yes, they do.

Q. I mean, to the Bank of Canada?—A. No; because we get our interest from the earnings on the securities which we buy.

By Mr. Quelch:

Q. What if the chartered banks buy securities direct from the Bank of Canada?—A. If they do?

Q. Yes.—A. That would mean contraction. We have not been following that policy.

By Mr. McGeer:

Q. No. What I am getting at is this. The Bank of Canada purchases securities or gold in the open market?—A. Yes.

Q. Not from the banks?—A. Not necessarily.

Q. And those from whom you purchase receive Bank of Canada cash?—A. Yes.

Q. And in the process of banking practice they deposit that cash with the merchant banks?—A. Yes.

Q. And it is in that way that the banks secure their legal tender cash reserves upon which they can expand their deposits?—A. There is one other way in which they can secure it.

Q. I am now dealing with this particular instance of purchasing of securities.—A. We may purchase securities direct from the bank.

Q. You have not been doing that?—A. Of the securities which we bought it may be indirectly, some of them come from the banks.

Q. The banks have been accumulating, not selling?—A. If in some cases the banks have sold some securities which reach us, that has been a temporary affair; they have later gone out and bought some more.

Q. That would be merely to balance their inter-bank balances, or to meet obligations?—A. That might well have been the practice.

Q. Or to sustain their position of liquidity?—A. Yes.

Q. But I take it as a general matter, the banks have been sufficiently liquid to accumulate as a multi-bank system these securities more or less proportionate to their banking activities?—A. Proportionate to their increased cash, yes.

Q. And, for instance, the large banks would buy more and the small banks buy less?—A. Yes.

Q. But taking it by and large would it not be right to say the banks have generally together as a system been accumulating this type of investment during the last five years?—A. Yes.

Q. Now, then, there is a cost to banks over and above the cost of getting Bank of Canada bills; that is the cost of financing their increased deposits. —A. The interest costs and operating costs, you mean by that?

Q. But this is a cost which goes with an increase in deposits?—A. Yes.

Q. And that has been generally reduced during the last few years?—A. Yes, necessarily so, I expect.

Q. I take it from this statement that the Bank of Canada has supplied the cash free to the banks subject to whatever cost may be incurred by the banks for that increase of their deposits by purchasing securities?—A. But the cost to the banks is there in the initial increase in deposits which arises from an increase in cash.

By Mr. Landeryou:

Q. If there was no increase in their deposits would there be any cost to the banks for that additional cash?—A. They can only get additional cash in one of two ways, either by our buying an asset, say a government security, through an individual or a company selling it to us, and then depositing the cash with the chartered bank. That means an increase in deposits with its attendant cost of interest and servicing. The alternative way would be if we bought a government security direct from a bank. In that case the bank sells us the earning asset and we earn the money on it and they have the cash.

Q. What I am trying to get at is the cost to the bank for the use of the currency. They do not have to pay for the currency itself; it goes into the bank free. As far as the banks are concerned they do not have to pay anything for it except the cost of operating general banking business?—A. No, that is not the case. I have tried to say that again and again. If the committee will permit me, may I repeat it once more?

[Mr. Graham Ford Towers.]

By Mr. McGeer:

Q. If I may be permitted, what Mr. Landeryou is talking about is not the depositors cash. He is talking about the deposit which is expanded on the deposit of cash. It is quite true when you take a deposit to a bank, of say $1,000, the bank will get that $1,000. That is a deposit; and if it is put in the savings account it carries with the charge of interest and the servicing charge; but that would be comparatively small as compared with the deposit which is increased on the expansion of bank deposits of 10 to 1 on that reserve of cash. What Mr. Landeryou, I think, is trying to suggest to the governor, is that if there were no increases of banking deposits on the cash reserves deposited with the bank, there would be no cost.—A. Yes, there would.

Q. The cost would be merely limited to the cost of financing and maintaining and servicing the actual deposit of cash.—A. Well, that is a cost. In other words—

Q. The cost there would be much smaller than the other?—A. No.

Q. Well, proportionately much smaller?—A. No, I think proportionately the same, though perhaps I may be misunderstanding you. If the individual that you mentioned deposits $1,000 in cash in a chartered bank, even when the additional cash results in no action of an expansionary kind, the bank's deposits will have gone up $1,000, no more. Its cash will be up $1,000. On the cash asset it will earn nothing, but on the $1,000 deposit, if it is in the savings account, it will have to pay 1½ per cent interest and such proportion of the overhead as applies to a $1,000 deposit.

By Mr. Landeryou:

Q. It only pays 1½ per cent because it determines it should be 1½ per cent; it is not arbitrary?—A. It is not arbitrary, but I think that it is the commercial bank's duty to pay as much to the savings depositors as the banks can afford.

Q. The Bank of Canada pays nothing for this cash?—A. The Bank of Canada, you will find, owns probably a security, a government security, on which we get whatever the interest rate would be.

Q. If you purchase gold?—A. Ah, well—to the extent that we hold gold, that is a non-earning asset. We should only hold the amount which it is deemed in the public interest to hold, having in mind future possibilities.

Q. It depends on how this money is issued, whether it would be costless or cost us something?—A. No, it makes no difference to the chartered banks what form our assets take, the cost is always the same to them, namely, the interest on the deposit and the cost of servicing.

Q. But no cost to the Bank of Canada. They do not have to pay anything to the Bank of Canada for the money?—A. There is no relationship of that kind; they do not ask for it; they do not say anything about it. We take the action from start to finish.

By Mr. Kinley:

Q. They deliver a bond for it?—A. If we buy a security from them—

Q. Somebody has to deliver it to you and the service on the bond and interest comes in there?—A. If we buy a government security we get the earnings; if we buy gold, if somebody—

Q. If somebody puts it in the bank, that is somebody else's money?—A. That is right.

By Mr. Landeryou:

Q. Have you taken account of the increased cash reserves of the banks by the purchasing of gold or securities? Who pays the actual cost of printing that money?—A. As a matter of fact, you will find that it takes the form of additions to the chartered banks' deposits with us rather than the form of printed notes.

Q. Still, who pays the cost of it?—A. Who pays the cost of operating the deposits?

Q. No; when you increase the cash reserves of the commercial banks—A. Yes.

Q. Who pays for the cost of printing?—A. There is no cost of printing.

Q. Just a simple deposit?—A. Yes.

Q. You carry that cost. And what interest do they pay for that deposit?—A. We do not pay any interest.

Q. What interest do the commercial banks pay on the deposit?—A. It is a deposit of the commercial banks with us. If anyone paid interest it would be the Bank of Canada who paid; but we do not pay any interest. By law we are not allowed to.

By Mr. Cleaver:

Q. The suggestion has been put out, I think, pretty strongly, and I think it should be cleared up, that by this expansion policy the banks have received ten times addition free of charge. Now, from what I have heard from the evidence, I would say it would be much more accurate to say that all that happens is that the volume of banking business has increased ten times by this expansionist policy and not that the banks receive ten times the amount of money or credit interest-free, but that their banking business has increased by their customers' operations ten times.

Mr. McGeer: Well, I would not agree with that at all. I think you are quite wrong, and I think if—

Mr. Cleaver: If I am wrong I should like it to be demonstrated to me.

Mr. McGeer: What you are talking about is one thing and I am dealing with another matter altogether. I have not come to that phase yet. I was dealing with the factual situation that during the 5-year period of this expansionist program, bank deposits have increased so much.

Mr. Cleaver: Yes.

Mr. McGeer: The bank holdings of public securities have increased just about the same figure and what I put to the governor was something different. I say I am not dealing with commercial loans at the moment; I am dealing with the increased public securities held by the banks. What I put to the governor was a plain question, and it was this: Is it not a fact that in the main the result of the easy money policy has been to increase the merchant bank holdings of public securities? And the answer to that was "yes."

Mr. Cleaver: That has been brought about by the general public depositing this money in their accounts, in their separate accounts. Each time the bank deducted 10 per cent for reserves and consequently there is a continuity of successful deposits until the whole 100 per cent is used up in reserves. That brings about a tenfold expansion, but I say it is not handing the banks directly \$450,000,000 or \$460,000,000.

Mr. McGeer: I think you are a little ahead of your story. When the government sells to the banks the security, it has a deposit which it checks out and it is in that process of the government paying out that money for materials or services that the deposit is transferred to others who have earned it.

Mr. Cleaver: That is quite true.

Mr. McGeer: But I am dealing not with the ultimate proposition of the resulting increase in the volume of business through government spending, but I am dealing with the first step, namely that of the method of transferring public securities from government to the merchant banks.

Mr. Cleaver: Yes. Now let us take one block of \$10,000,000, we have the securities, and follow it through.

[Mr. Graham Ford Towers.]

Mr. McGEER: I think you will follow what I have here, and you will see.

Mr. TOWERS: As a matter of fact, I think if you had a commercial banker before you, he would say one of the most striking results of the policy was the tremendous decrease in the gross earnings of the banks.

Mr. McGEER: We will come to that.

The CHAIRMAN: Order, order please.

Mr. LANDERYOU: The rate is less, but then on the holdings of these securities they have a steady income and they are not losing any money on the transaction.

The CHAIRMAN: One at a time, please. Suppose we allow Mr. McGeer to continue?

Mr. McGEER: You see the trouble is when we get through with this record we will have it in such a completely jumbled state nobody will be able to ever interpret it. What I am trying to do is demonstrate, if I can, the method which we are resorting to for financing public enterprises.

Mr. TOWERS: The alternative, of course, would be to borrow the amount which the people have in their savings deposits and to a certain extent that is going on at the present time. If that method had to be relied on during all this period of years, I would say that the financing would have been very difficult, and of course a great deal more expensive. But the policy which has been followed undoubtedly involves substantial sacrifice; there is no question of that.

By Mr. McGeer:

Q. I agree with that.—A. Whether it has been fair or not will be for other people to say.

Q. And I think some of us are very much concerned about what future sacrifices are going to be involved unless we can improve the system. That is my concern.—A. Improve the system of production?

Q. Improve the system of public finance. We are not dealing with, and I do not want to get into, the realm of non-monetary factors here because I think that this is essentially an investigation of what we can do through the Bank of Canada, and not what might be done by governmental policy in other directions?—A. Yes.

Q. You see what we thought we had in 1935—at least what I thought we had—was a new programme in public finance that was going to relieve to some extent the problem on governmental finance?—A. It has, of course.

Q. Yes. Well, now, of course I will just take the expenditures of the Dominion Government during the years 1934, 1935 and 1936 and three comparable years when the new policy should be well in weigh, namely, 1938 and 1939—

Hon. Mr. STEVENS: 1937?

By Mr. McGeer:

Q. 1938, 1939 and 1940. We have the estimates now. Now in 1934 it was $350·8 millions?—A. Ah, yes.

Q. The expenditures of the government of Canada?—A. The ordinary expenditures?

Q. Yes. 1935, $357 million; 1936, $370 million, or a total of $1,077,000,000. In 1938 it was $510 million; 1939, $497 million; 1940, 488 million, or a total of $1,495,000,000.—A. I think that those figures are, perhaps, not quite right.

Q. Would you check them?—A. In the first instance, in 1934, 1935 and 1936, you are referring to ordinary expenditures not including unemployment, agricultural relief and C.N.R. deficits or certain other things. So far as I can see, in the later years you are referring to revenues.

Q. I may have made a mistake on that. Would you mind giving me the figures for 1935 of ordinary expenditures including total expenditures?—A. Perhaps total expenditures would be best: in 1934, $455 million; 1935, $476 million; 1936, $507 million. That figure, I might mention, does not include a charge for wheat losses made in that year. 1937, $511 million; 1938, $531 million; 1939, preliminary, $528 million; 1940, estimate, $579 million.

Q. That gives two totals of—well it does not make the ultimate result very much different. You have an increase in the last three years of expenditures of government of $200 million.—A. In the last three years as compared with—?

Q. 1934 to 1936, I make it $1,438,000,000; 1938 to 1940 it is $1,638,000,000.—A. Yes.

Q. So, we have an increase in the expenditure of $200 million.—A. Yes.

Q. Or an average of 60 odd million a year on increased burden of taxation?—A. How much of that figure in expenditure is represented—what I am getting at is the effect of the deficit in the earlier years as compared with the deficit in later years—the best way would, perhaps, be to take the revenue figures for those years.

Mr. KINLEY: Take the revenue out of the Post Office Department. There are a lot of revenue producing departments.

Mr. TOWERS: Yes. I will give the revenue in those two groups in a moment.

Mr. JAQUES: Could I clear up one particular point raised by Mr. Cleaver?

The CHAIRMAN: Just wait until Mr. Towers has made this calculation.

Mr. TOWERS: These are the revenue figures for years 1934 to 1936 inclusive, $1,054,000,000; for the years 1938-1940 inclusive, $1,496,000,000, or an increase of $242 million—excuse me, I am wrong, an increase of $442 million.

By Mr. McGeer:

Q. And the bulk of that increase came from income tax and sales tax?—A. Yes.

Q. And not from the revenue producing public services?—A. No.

Q. So that what we have got, in actual expenditures, during the three years when the Bank of Canada was in full swing and in the three years when it was starting—we have got an increase in public spending of $200 million and an increase in public revenues of $442 million?—A. Yes.

Q. Definitely indicating that the cost of government has substantially increased rather than declined?—A. That the government is spending more. That is what the figures show.

Q. Well, the cost of government—that is true?—A. Yes.

Q. So that in that regard the Bank of Canada has not been of much assistance to the dominion?—A. The Bank of Canada, of course, does not make up the annual budget.

Q. Now, the next point, Mr. Towers, I would like to draw your attention to— —A. Perhaps I should point out this: apart from the increase in the rate of sales tax, the increased revenues from both income and sales tax do naturally reflect a higher income, a greater volume of activity in the country as a whole.

Q. And also you would agree there were other factors in it contributing to the increase in the volume of business in Canada quite apart from the Bank of Canada activities?—A. Gracious, I make no claims in regard to the Bank of Canada activities.

Q. For instance, I can draw three things to mind: one, the Roosevelt price of gold which has had a tremendous effect on stimulating not only gold mining activitity but mining activity generally in Canada. Although we followed that price of gold, that price was fixed by the Roosevelt administration; you would agree with that, would you not?—A. Yes.

Q. And that has had a tremendous influence in improving general conditions in Canada as well as mining conditions?—A. Yes.

[Mr. Graham Ford Towers.]

Q. Because gold securities and the other securities of mining affected by the increase in price of gold have permeated throughout the whole credit structure of, we will say, Toronto and to some extent Ontario and to some extent the Dominion of Canada?—A. I do not quite follow the implication there, but certainly I would agree that the development of gold mining and the profits earned were a material influence—very.

Q. And gold securities with rising productions have been good securities in the credit structure?—A. They have made profits for people. They do not enter into the credit structure to any extent.

Q. If I have got gold mining stock I can get credit from the bank?—A. Yes; it seems that people do not want it to any extent, so the amount of loans is small.

Q. The other factor is that the inflationary program of the Roosevelt administration has established a market for Canadian pulp and paper.—A. The prosperity of Canada, of course, is materially affected by the prosperity of the United States, which is one of the reasons why conditions here were somewhat better in 1937 than when the United States had their—shall I call it—collapse. There was a tremendously rapid decline in activity about the end of that year.

Q. We followed it?—A. Yes, we followed it.

Q. But we got the benefit of the inflationary program of the Roosevelt administration which did set up until the break came in 1937, advancing conditions there?—A. Whatever the reason for the improvement in the United States, we benefited from the improvement.

Q. And in addition to that, our tourist trade figures from the United States rose as that inflationary spending program of the United States government carried on?—A. They rose during certain of those years, yes.

Q. And it is due to our gold sales and our tourist trade returns that we are showing a favourable balance of trade and, in turn, consistent favourable balance on international payments?—A. I would not like to earmark any two things in our total exports as the ones which are responsible for the final favourable balance.

Q. Nevertheless, those two items do lump out in the total result.—A. Those two items are important factors.

By Mr. Kinley:

Q. With the United States principally?—A. Yes.

By Mr. McGeer:

Q. To come back to the issue of Bank of Canada bills, there has been a decline in the issue of merchant bank bills, has there not?—A. Yes.

Q. That, as you know, was heralded as a great restriction on the merchant banks' powers at the time it was put in force. Probably you are not conversant with the political life of the country?—A. I must say I am not.

Q. In any event, I can tell you as one who has been interested for a number of years that that was sounded out as a great reform; but we dropped the issue of free money on the part of the merchant banks?—A. It was not quite free.

Q. Not quite free, but almost free.—A. 1 per cent tax.

Q. One per cent. In any event, I would like to have the privilege of issuing them at 1 per cent. From 1935 at $126 million to 1939 at $90 million.—A. Yes.

Q. In fact, it had dropped less than it was necessary for the banks to drop it on that 5 per cent per year, hadn't it—dropped more?—A. Dropped more.

Q. In other words, the merchant banks for some reason or other found it unnecessary to utilize their privilege of printing their own merchant bank bills as their own money?—A. They have to keep a certain margin to make sure that they don't go over the edge, so to speak.

Q. Through that period of time, Mr. Towers, the increase in the issue of Bank of Canada bills was greater in volume than the merchant banks' bills declined?—A. Yes.

Q. So that the result was that in the operation of the Bank of Canada policy the merchant banks had more cash in hand than they would have had had they been allowed to issue their own currency and there had been no issue of Bank of Canada bills?—A. But their own currency never constituted cash, so far as they were concerned. I thought we were speaking of cash circulation in the hands of the public.

Q. They increased more than the merchant bank bills declined?—A. Yes, but what happened there is, as you know, that instead of people holding chartered bank notes they held ours.

Q. Yes. As a matter of fact, for the purposes of general exchange, till money and pocket money purposes, the Bank of Canada issued more money between 1935 and 1939 than was taken out of circulation by the decrease in the merchant banks' issue under the restrictions that were imposed in the Bank Act of 1934?—A. That is right; and, of course, as you know, the amount which is in the hands of the public depends on the demand which the public makes to the chartered banks. That is not something which either the Bank of Canada or the chartered banks determine, the public determines that.

Q. All I am suggesting to you is that the merchant banks have not suffered any as a result of the loss of their right to issue their own money?—A. Well, it depends on whether they make any earnings on that note issue right. If they do, then their earnings are less because the amount which they have in issue is less. As a matter of fact, right now the note issuing power is probably not a profitable one.

Q. Because of the fact that the Bank of Canada does it cheaper?—A. No, it is because of their note issues, banks pay one per cent tax, and it also costs them money for printing and distribution. At the present level of interest rates it is not a very profitable operation.

By Mr. Kinley:

Q. Is that one per cent cost of printing included in the two per cent cost that you gave?—A. No. That three per cent cost that I mentioned was two per cent general overhead and operating cost and one per cent for interest. I looked on the note issue situation as something quite separate.

Q. Is it a big item in their economy; the interest on loan notes?—A. Well, the tax is one per cent; what the cost of printing and shipping it out to the various branches is I am not quite sure, but it is something of the order of three-quarters of one per cent perhaps.

Hon. Mr. Stevens: That much?

Mr. Towers: Yes.

Hon. Mr. Stevens: Oh, I don't think so.

Mr. Towers: I would think so—five-eighths at the best.

Hon. Mr. Stevens: That is rather surprising.

Mr. Towers: It costs us that, about five-eighths.

By Mr. Kinley:

Q. Would you not think the tax on bank notes was an item in cost?—A. Absolutely.

Q. Why didn't you include it in your three per cent when you said their cost of doing business was roughly three per cent?—A. Well, my estimates were of a very general character and I really could not tell you whether in the amount I excluded one per cent tax on their notes in circulation of whether I just lumped that into their general cost. But just considering the note issuing authority as a thing by itself, and applying only the cost that arises from that operation, I should say the cost was about one and five-eighths or one and three-quarters, without including any general charge for overhead.

[Mr. Graham Ford Towers.]

Q. Would you like to amend that cost for doing business for the banks and include all their costs?—A. I haven't got any figures to show. I am just making a guess.

By Mr. McGeer:

Q. Now, Mr. Towers, I want to deal with some problems of inflation: I think you told us before it is very difficult to tell when inflationary conditions were commencing or what would actually produce inflation. I am going to give you the figures of the increase in the Canadian bank deposits:—

Year	Amount
Increase of 1934 over 1933,	25 million
Increase of 1935 over 1934,	138 million
Increase of 1936 over 1935,	141 million
Increase of 1937 over 1936,	137 million
Increase of 1938 over 1937,	67 million

Or a total of 508 millions of dollars between 1934 and 1938, or an average of $101,600,000 a year. Now, that expansion of bank deposit money in Canada did not indicate any inflationary condition, did it?—A. Under the circumstances under which it took place, that is the business circumstances, it has not produced any inflation.

Q. As a matter of fact, notwithstanding that expansion of bank deposit money a deflationary condition still exists in the Dominion of Canada?—A. Probably a little less so than in 1934, but if you mean continuing low level of prices, yes.

Q. Now, in a recent statement of the Midland bank they gave, I think, some standards of signs of inflation. This is the latest issue of the Midland bank monthly review, April and May, 1939, and it says:—

> So far, however, there are no signs of inflation, present or immediately pending: Prices, whether of raw materials or finished goods, are not rising, nor is there evidence of any widespread pressure on supplies; no shortage of labour has appeared, except perhaps in a few highly specialized branches the demand for which has greatly increased; moreover, as we have shown, the balance of payments, a deterioration of which is an inescapable accompaniment of inflation, has become stronger in the past half year.

Would you say similar conditions to those obtain in Canada?—A. Yes.

Q. That is, we have no sign of prices rising for raw materials or finished goods, or pressure on supplies; no shortage of labour has appeared and our balances on commitments are still in a healthy condition?—A. Yes.

Q. So that with the increase of 500 million of bank deposit money we have not had any inflationary result?—A. No. We have not. The circumstances of the time have not encouraged it.

Q. All right, now— —A. The potentialities of inflation under appropriate circumstances have increased. That is something for the future to determine.

Q. Well, we are a long ways from getting our prices up or from getting our labour markets balanced?—A. That is right.

Q. And we have still got a long ways to go?—A. That is right.

Q. And certainly we could engage in a considerable volume of public expenditure yet before inflationary conditions are likely to develop, could we not?—A. With reference to the volume of public expenditure, of course, the monetary effect of that will naturally be determined by the way in which the expenditure is financed.

Q. England is now facing probably one of the most serious public expenditure obligations that country has ever faced in peace times, is it not?—A. I believe so.

Q. Yet authorities are indicating that the expenditure by borrowing is going to improve rather than destroy or disrupt business in the old country?—A. At certain costs. I think that they are already commencing to think of the necessity by taxation or other measures—naturally I am not speaking for the United Kingdom government, I am talking about the people in England—of reducing consumption by the people in order to leave more things free for the armament effort. I think they also realize that because of this armament effort it is likely that they will be living on some of their foreign capital assets.

Q. Let me quote to you, if I may, just to follow this up——

By Mr. Quelch:

Q. Will they not be increasing consumption?

By Mr. McGeer:

Q. I should like to put this on the record, if I may.

This is a statement made by Reginald McKenna, on February 11, 1939. Do you know of any man who is more conversant with public and banking finance than Reginald McKenna in England to-day?—A. I think it would be wrong for me to express any opinions favourable or unfavourable in respect to any names.

Q. He was the British war time Chancellor of the Exchequer?—A. For some time, yes.

Q. He went through the experience of modifying, changing and expanding the monetary system to finance the last war?—A. Yes.

Q. And since that time has been engaged in merchant banking in England?—A. Certainly his experience has been great and wide.

Q. In the two great fields of finance, namely, public finance and that of private finance in the merchant banking system?—A. Yes.

Q. In the light of experience his opinion ought to be worth something?—A. Certainly.

Q. This is what he says with reference to the very thing you dealt with a moment ago:

> The problem of the proper use to be made of the nation's savings presents at the moment no difficulties fos us; it is solved by the fact that the government has come into the market as a borrower on a large scale. The great additional expenditure on armaments has to be met, and the question of ways and means is gravely exercising the minds of all engaged in commerce and industry, no less than the mind of the Chancellor of the Exchequer. We shall agree that the method we want to see adopted is the one which in the long run will be best for the country. I remember that, when in 1915 it was my lot to go to the Exchequer, one of my first duties was to receive a very important deputation of bankers and merchants of the city of London who came to press upon me the need for an increase of taxation. I was fully in accord with their opinion, and in the autumn of that year introduced a second budget increasing taxation heavily. I mention this to show that the spirit of sacrifice is not wanting in our people when an emergency clearly confronts them. The willingness to do the right thing is not in question; the problem is how to raise the requisite resources without injury to our total national production.
>
> The choice lies between additional taxation, borrowing, or something of each. If labour to-day were in full employment I should, for my part, unhesitatingly lay the emphasis on taxation. But when there is

> very considerable unemployment, questions arise which may lead to a different conclusion. New taxation disturbs industry for the time being by reducing the demand for goods of widespread consumption, or at any rate by creating a belief that there will be such a reduction in the near future. Orders are withheld and employment is consequently diminished. In a condition of full employment the labour so displaced might readily be absorbed, but when we have already nearly two million people unemployed we must be careful not to add to their number. The additional expenditure by the government ought if possible to be so directed as to bring into productive activity men and women who are now out of employment. Taxation will not help in this respect; borrowing, on the other hand, under existing conditions will stimulate employment, and as the demand for labour grows industrialists will be forced ultimately to draw from the pool of unemployed. The limit to this policy is obviously reached when all labour employable at a profit at the current rate of wages is fully engaged, but we are a long way from that condition at the present time.

A. Since he wrote that, of course, the Chancellor of the Exchequer has announced his budget, and as I recall it the increases in taxation were relatively moderate; therefore they are going to finance most of the increased expenditure by borrowing.

Q. As a matter of fact, since that statement was written the expenditures on armaments have been increased enormously?—A. The plans have probably been stepped up still further, as you say.

Q. So that we have the considered opinion of Reginald McKenna, in February of 1939, being followed by the Chancellor of the British Exchequer in May of 1939, and that policy is a policy of borrowing to provide the means of public expenditure to increase employment in Great Britain?—A. To provide armaments.

Q. In the production of armaments to increase the volume of employment there?—A. It will have that effect, undoubtedly.

Mr. KINLEY: The country must be wealthy enough to stand it. It depends on the country's wealth.

Mr. McGEER: This country, proportionately, is wealthier, in my opinion, than England.

Mr. KINLEY: Oh, well.

Mr. McGEER: Those are facts that we can ascertain.

By Mr. Jaques:

Q. Is not that increased taxation necessary to repay the banks which are financing the rearmament program.—A. The banks are not financing the rearmament program, the citizens of the country are.

Q. I do not think they were before.—A. If you can prove to me that they were not Mr. Jaques, I will take it back.

Q. Where were the savings before?—A. The savings accumulate each year, do they not?

Q. What in?—A. In a surplus of goods over those which are consumed, not money.

Q. They accumulate in securities and— —A. No; the annual production.

By Mr. McGeer:

Q. In April and May, 1939, the Midland Bank has this to say about financing these loans and maintaining an easy-money policy. They seem to challenge the continuation of an easy-money policy in Great Britain.—A. You mean they are against it?

Q. No, they say it should be continued.—A. Yes.

Q. As a means of aiding the government to get the funds necessary for financing this armament program at the lowest possible interest rate.—A. In other words, they recommend that England should do what we have been doing for about ten years.

By Mr. Kinley:

Q. Since 1930, at least?—A. Yes.

By Mr. Jaques:

Q. Did they finance the war through savings?—A. Yes.

Q. As to two-fifths; three-fifths?—A. I beg your pardon?

Q. As to two-fifths; as to three-fifths, by bank expansion of credit?—A. That involved the use of the people's savings through changing the value of the currency, speaking now of the effect on individuals. So far as the country as a whole was concerned, as you can readily realize, the entire costs of the war, except those which were borrowed from abroad, were provided from the actual production of the country. Nothing else is possible. You cannot borrow in 1918 the shells of 1940.

Q. That is true. The point is that without the creation of credit in the first place the shells never would have come into existence.—A. That was one means of taxing the people in a certain way.

Q. That was practically the whole means.—A. It was one means of securing it from individuals. Speaking of the country as a whole, of course, the costs of the war, except for borrowings from abroad, were paid from the production of the country.

Q. You mean the real costs. I am speaking of the financing costs.—A. The question of distribution of the burden amongst the people is another thing.

Mr. LANDERYOU: Expansion of credit is what he is trying to get at.

By Mr. Jaques:

Q. The financing of the war and of these enormous armaments is done by the bank expansion of credit. I do not think there is any argument about that. A. No. During the war there was a considerable expansion of credit which did produce inflation. This is a question of a certain method of financing, the importance of which is its effect of distributing the cost among the people. At the present time—I should not say at the present time, but I should say for some years past, there has been no particularly large expansion of credit in England. Whether or not there will be, as a result of this greater armament financing I do not know. That is a point, as a matter of fact, which will come into what Mr. McGeer has to say.

Q. The deposits increased three times over during the war.

By Mr. Landeryou:

Q. Having regard to financing the war as far as Canada is concerned, was it financed by using the savings of the people that were in existence in the year 1914?—A. That is not the way you get along. You use the annual production. To the extent that those savings were represented by farms, by plant and machinery, yes; in that sense you do use the past savings represented by those physical assets which enable you to produce a larger amount than you otherwise would be able to produce.

Q. Let us take a specific expenditure on the part of the government. When they purchased shoes, we will say, for the soldiers that went overseas, did they borrow the savings of the people to make those purchases or how did they do it?—A. Yes; in general.

[Mr. Graham Ford Towers.]

By Mr. Quelch:

Q. What happened was that there was a large expansion of bank credit which resulted in a large expansion of deposits. Expansion of credit came first. —A. The expansion of bank credit came, as I recall it, without having the figures before me, fairly early. The impact of the war on our industrial and economic life came very soon after the commencement of the war. The increased volume of production resulted in an ability to save and to provide the supplies of materials necessary for the prosecution of the war.

By Mr. Landeryou:

Q. How did the increase in bank deposits come around? In 1914 there was one billion, two or three hundred million—I forget the total amount now. But there was an increase of nearly 100 per cent in bank deposits from 1914 to 1918 or 1919?—A. Yes.

Q. How did that increase come around in the savings of the people?—A. I would have to look at the figures to see where the main expansion took place, whether it was in banking investments or bank loans. I have forgotten. You can assume, however, that it was the sum total of those two.

Mr. McGEER: A combination of both.

By Mr. Landeryou:

Q. A combination of both; a combination of investments in government securities and loans?—A. Yes.

Q. But mostly government securities.

Mr. McGEER: In any event, if we can get on with this, I should like to do so. It is getting close to six o'clock.

The CHAIRMAN: Order, order. Let Mr. McGeer finish.

By Mr. McGeer:

Q. Apparently in the mind of McKenna there is going to be no difficulty in financing the defence program of Great Britain to-day?—A. I should not think there would be.

Q. You would not think there would be?—A. No.

Q. But he is a little perturbed as to whether or not they are going to change from an easy-money policy and start a more costly money policy. You are aware of that situation?—A. I have not read that statement there.

Q. I should be glad to draw it to your attention.—A. But I have heard about it.

Mr. KINLEY: Whether they should borrow or pay cash.

Mr. McGEER: No; that is not the point I am dealing with. If you will just listen—

Mr. KINLEY: I am listening.

Mr. McGEER: I do not want to be controversial. I am merely dealing with the facts as McKenna puts them forward, not as I present them.

Mr. KINLEY: Whether they should borrow the money or tax the people.

Mr. McGEER: That is not the point I am dealing with at the moment, because we have already—

Mr. KINLEY: They are both orthodox, as you say.

Mr. McGEER: I think we did deal with that a moment ago when I asked the governor if the policy advocated by McKenna, in the light of the unemployment conditions which existed in England, would not be taxation but borrowing; and as he said, that was the policy advocated by McKenna, and is the policy being put into effect in the main by the chancellor of the British exchequer in the present budget.

Mr. KINLEY: A little of both.

Mr. McGEER: Some of both, but mostly borrowing.

Mr. KINLEY: If the country can stand it, all right.

Mr. McGEER: All right. Here is McKenna's statement:—

> The exhaustion of the supply of possible good reasons for a restrictive monetary policy leaves us with only a bad one. The conclusion is inescapable that policy has been allowed to be dragged at the heels of spontaneous events. These events have followed the line that long ago became traditional in times of unsettlement—an increasing emphasis by individuals, financial institutions and business undertakings generally upon the virtue of liquidity; a presumption, perhaps not fully justified, that if war comes it must infallibly be accompanied by much higher interest rates; a consequent rise in rates of interest on the money market and a fall in values of investments, which may be more "precautionary," or nominal, than the result of actual sales. So far as can be seen, the authorities have done little to counteract this course of events, notwithstanding the great, direct and immediate interest the government has in maintaining strong conditions in the gilt-edged market and a low level of interest rates for all kinds of borrowing to which it is likely to resort. On the contrary, the more or less passive attitude adopted until February has been followed, inexplicably, by steps in the contrary direction of deflation.

Then he goes on to say:—

> It may indeed be hoped, since it is so difficult to "rationalize" this action following inaction, that it will prove to have been nothing more than another temporary aberration from the course of wisdom and self-interest. To make this interpretation convincing, the immediate and basic necessity is a full restoration of the cash basis for the banking system. This would make it possible, first, for the banks to take up a share of the expanding volume of treasury bills, and would tend towards a resumption of the low rates of discount, thereon, which in past years have been so helpful to the government's finances.

By Mr. McGeer:

Q. Do you agree that this is the policy that you are following in Canada?—A. You mean that the policy is easy?

Q. You said a moment ago that McKenna was advocating that the British government do what you had been doing here for the last five years?—A. I assumed that he was going to. In other words, he is suggesting an increase in the cash base, which has been taking place pretty steadily in Canada as we mentioned not long ago.

Q. If that is persisted in, and if treasury bills are issued and cash is supplied to the banks, the banks can finance government borrowings at low rates of interest and can influence that rate?—A. That is the case.

Q. That is the case?—A. Yes.

Q. Then would you tell me why— —A. May I say this: In England during the last four years more or less, the banks' security portfolios have not been increasing. I am a little uncertain about my time there. I will check that up in a moment. So that England has not for quite some years been following the policy that we have.

Q. I see. That is, you say that your proportionate increase of securities held by the banks is larger?—A. Than England?

Q. Than the securities held by the British banks.—A. Yes.

Q. How much higher?—A. I have just got a graph here which does not lend itself to explanation. I notice that in 1934, in December, the securities held by the commercial banks in the United Kingdom were £594,000,000; that at the latest figure here of February, 1939, they were £617,000,000, an increase of £23,000,000 or about 4 per cent.

Q. There are other investments of savings, like the post office savings bank?—A. Yes.

Q. And several other forms of accumulated savings?—A. Yes.

Q. Which are not included in that figure in the Old Country, are there not?—A. That is right.

Q. So that if we got the total of the investors of accumulated savings in England we would have nearer to the figure relative to our own?—A. That is correct. Of course, you must remember one major difference. The English budget has been balanced for a period of years, ours has not.

Q. With drastic taxation.—A. In England?

Q. In England.—A. That is right.

Q. Much more drastic than ours.

Mr. KINLEY: And by borrowing.

Mr. TOWERS: And their budget has been balanced without really any particular occasion to borrow new money, as a matter of fact, until this armament program came on.

Mr. KINLEY: That is what I meant.

By Mr. McGeer:

Q. Now, as a matter of fact the policy in England to-day is such that they are converting this defence crisis into a re-armament program which involves large expenditures of public money, which, in turn, is looked upon as the means of rehabilitating employment and business generally in England?—A. I would put it this way, that they are forced into the re-armament program and they do expect that the effects on business will be thus and so.

Mr. KINLEY: By the people putting their savings back into the pool.

By Mr. McGeer:

Q. So we come to the present, and so far as war is concerned, to defend the integrity of the nation there will be no difficulty in raising the means of financing whatever those requirements may be?—A. The limit of the possibilities depends on men and materials.

Q. Men and materials, and where you have an abundance of men and materials you have no difficulty, under our present banking system, in putting forth the medium of exchange that is necessary to put the men and materials to work in the defence of the realm.—A. That is right.

Q. Well, then, why is it, where we have a problem of internal deterioration, that we cannot use the same technique to put men and materials together to improve the general wealth of the dominion and the employment of the unemployed in the dominion in what are just as essential in my opinion as the defence works, namely peace time developments?—A. That is certainly not a question which should be answered extemporaneously, and as you know, we have tried to express whatever views we could in regard to the possibilities and limitations of such proposals in various sections of the record.

Q. Well, in any event, you will agree with me on this, that so long as the investment of public funds is confined to something that improves the economic life of the nation, that that will not of itself produce inflationary conditions?—A. Yes, I agree with that, but I shall make one further qualification, that the investments thus made shall be at least as productive as some alternative uses to which the money would otherwise have been put—

Q. Let me put this to you: Do you know of anything less likely to produce itself than an investment in armaments?—A. Less likely? I think I would agree with that. There are other things which are completely useless, as armaments are, except in the event of war.

And as a matter of fact, from a reproductive point of view, the only virtue in an armament program—that is looking at it not from the defence point of view but from the economic point of view—is distribution of wages and moneys for the materials which are involved in the development.—A. you say the main effect—

Q. I say the only real virtue, looking at it from an economic point of view, is in the distribution of wages and the moneys that are used for the purchase of the materials which are involved in the development.—A. One could wish that circumstances were such that they might have been spent on something else.

Q. Now, you know W. A. Shaw?—A. I seem to recall the name.

Q. He has a passage on the effect of the increase of money on prices, and what he suggests—I am quoting from his book "Currency, Credit and the Exchanges", by William A. Shaw. He is the editor of "Calendar of Treasury Books and Papers". He disputes the fact that the issue of money in England caused a rise in prices and says this— —A. During what period?

Q. 1914 to 1926. This is what he says:

> During the period here treated of, 1914-26, there were only three countries in the world which employed monetary systems which were automatically self-expanding and self-contracting. Those countries were Great Britain, the United States and Egypt, and in these three countries it will be found that the movement of prices was practically indentical and represented the influence or the results of world war conditions, and, further, that the increase of prices preceded and was therefore responsible for the increase in the currency, not the reverse.

Then later on he says:

> In plainest terms, therefore, the quantity theory of money and the purchasing power parity theory are both simple statements of a condition of things which prevails only where the currency is manipulated or controlled; neither of them has any applicability whatever to the present currency system of Great Britain, and hardly applicability to that of the United States, by reason of the element of elasticity in the currency of the States. This accounts for the almost complete disregard which all American economists have for the quantity theory.

A. He makes statements, but he does not give reasons. I can, of course, get our research department to produce eight or nine authors who take the opposite view.

Q. Would not you agree that this was a possibility, that both the increase in prices and the increase in the volume of currency resulting during the war period were two conditions which developed as a result of war conditions, and that they were not of themselves responsible for the other?—A. For the inflation.

Q. Yes.—A. No; I think they were responsible for the inflation. One might say that under war conditions countries which are in a hurry and in a fix, do not choose carefully their method of financing.

Q. As a matter of fact, in all war periods we have ever had a distinct condition such as McKenna is fearful of now in which the opportunity to exploit the price level has been taken advantage of.—A. And it has been assisted by governments through their methods of financing.

[Mr. Graham Ford Towers.]

Mr. McGeer: And one of the most vicious instances of that aid by government in the exploitation of prices, was in the issue of $5\frac{1}{2}$ per cent tax-free bonds during the last war. You will agree with that?

The Chairman: Gentlemen, it is 6 o'clock.

Mr. Towers: I was not in Canada at that time.

By Mr. McGeer:

Q. Would you not agree with this, that we have a much better control over our monetary system today and that in the event of an emergency or war we are going to be able to finance at a much lower rate of interest than we did in the past?—A. I would hope so.

Q. Don't you think you have that control?—A. It must, perhaps, in a case like that, extend right through the picture.

Q. Of course, what I fear is this: I fear the armament bill that has been passed in this house in which we have fixed a rate of interest at 3 per cent, is going to be a disastrous cost to this country for any armament program of any size because of that fact, and what I am suggesting to you, and I should like to go back to it a little later on, is this: McKenna suggests that through the proper exercise of control of currency and credit, the rate of interest could be kept at a much lower rate. Do you agree with that?—A. I should think it probably could. What I meant there by questioning your control was this: you must not only concentrate on the rate of interest on government bonds if you want to impose the cost of the war as fairly as possible, you must go right through the picture and ask the people, or force the people to make sacrifices, all through the piece, not only in respect of interest rates on government bonds. That is the answer there.

Q. You quite agree that it is undemocratic in a time of national danger for only one group to be sacrificing everything and for another group to be making money at the same time?—A. That is just what I have said.

Q. I think that through the Bank of Canada, if we exercise—

Mr. Tucker: Mr. Chairman, before we go I wish to say that we might carry on for many days along the line upon which we are proceeding now, but I am wondering if we could not begin to consider and discuss a report to be presented to the house.

The Chairman: There are a number of men who wish to examine the governor before we come to our report. We can hardly wash them out.

Mr. Tucker: They should have come in before this.

The Chairman: They have asked to come in but they have not had an opportunity.

Mr. Landeryou: We cannot shut them out because some of them have not had an opportunity.

Mr. Tucker: If we are going to take the attitude that Mr. McGeer will carry on along these lines and if we are not going to start considering our report until a lot of people ask a lot more questions we will never get a report into the house. Parliament is not going to sit indefinitely.

The Chairman: There were two gentlemen who gave up in order that Mr. McGeer could proceed to-day.

Mr. Tucker: I think if those gentlemen wanted to ask questions they should have held to their right to ask them. For my part I think we should endeavour to get a recommendation before parliament.

The committee adjourned to meet on Wednesday, May 17, at 11.15 a.m.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 20

WEDNESDAY, MAY 17, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

WEDNESDAY, May 17, 1939.

The Standing Committee on Banking and Commerce met at 11.15 a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Cleaver, Coldwell, Deachman, Donnelly, Jaques, Kinley, Landeryou, Leduc, Macdonald (*Brantford City*), McGeer, McPhee, Moore, Quelch, Ross (*Middlesex-East*), Ross (*St. Paul's*), Stevens, Taylor (*Nanaimo*), Vien, Ward.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Examination of Mr. Towers was continued.

During the course of the proceedings, Mr. Kinley submitted a One Dollar Prosperity Certificate issued by the Government of the Province of Alberta, dated August 5, 1936.

Ordered that a copy of the said certificate be incorporated in the evidence.

At 1 o'clock the Committee adjourned until 4 p.m.

AFTERNOON SITTING

The Committee resumed at 4 o'clock.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Cleaver, Coldwell, Deachman, Howard, Jaques, Kinley, Landeryou, Leduc, Moore, Quelch, Ross (*St. Paul's*), Stevens.

After further examination of Mr. Towers, the Committee adjourned at 6 o'clock p.m., to the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

May 17, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: We have a quorum now, gentlemen.

In attendance: Mr. GRAHAM FORD TOWERS, Governor of the Bank of Canada.

Mr. LANDERYOU: Mr. Towers, have you answered the question I asked you some time ago? I was unable to attend two or three meetings of the committee because I was in the house.

Mr. TOWERS: Was that the question where you said: "I should like to know what effect that has had upon the prices secured by primary producers . . . ."?

Mr. LANDERYOU: Yes, and on employment and the general well-being of the country.

Mr. TOWERS: Yes. In reply to that question I do not think I can add anything to what is already on the record. The general effect of the internal policy of "easy money" is quite apparent. Purchasing of securities by banks has been an important factor in the decline of high grade interest rates to record low levels. Because of the low level of yields on securities, banks have desired to expand commercial loans, which are their most lucrative earning assets, ensuring loan accommodation for sound borrowers. Finally the result has been to give Canadians some $564,000,000 of additional money to use as they see fit. Monetary policy has been only one of many factors influencing specific items such as prices and wages, and it is impossible for me to estimate the effect due to monetary policy.

Mr. CLEAVER: While we are waiting, I wonder if Mr. Towers would explain once again for me—

The CHAIRMAN: If you stand up, Mr. Cleaver, you will be properly reported. I am afraid you won't be if you sit down.

By Mr. Cleaver:

Q. Would you explain once again the expansion which takes place when the Bank of Canada purchases securities? Jus take one concrete purchase and follow it through to its final conclusion.—A. Yes. The Bank of Canada purchases $1,000,000 of a certain issue of government securities, shall we say. It purchases that amount from Smith & Company in Toronto, Smith & Company being investment dealers acting for some individual who wants to sell these securities. The individual who sells the securities receives our cheque on ourselves—I pass by the question as to whether the dealers cash our cheque and give him their own; that does not matter. The individual receives then a Bank of Canada cheque which he deposits in his account with a commercial bank. At that point, other things being equal, the deposits of the commercial bank go up $1,000,000, and they having cashed the cheque or deposited it with us to the credit of their account their cash reserves go up $1,000,000. There is then a rise in their deposits of $1,000,000 on the liability side of their balance sheet and a rise in their assets of $1,000,000, represented by an increase in their balance with us. That means, of course, that at that stage their ratio of cash to

deposits will have increased, and it means that if they so desire and if they can manage to do so, they can made additional loans and investments, enlarging their deposits in the process of doing so until the ratio of cash comes down again to the earlier figure, not by any change in the amount of the cash but by an increase in the amount of their deposit liabilities.

Q. Now, would you further elaborate on how they can purchase securities?

The CHAIRMAN: Will you speak a little louder, pleace?

By Mr. Cleaver:

Q. Would you elaborate on how they can purchase securities to the extent of ten times that new deposit?—A. Ten times?

Mr. VIEN: Do they purchase securities? I think the question as put is erroneous. They do not purchase securities for ten times a deposit, but they can create deposits for ten times their securities.

Mr. TOWERS: Well, not quite.

Mr. VIEN: No?

Mr. TOWERS: They have $1,000,000 additional cash through the process which I have just mentioned.

Mr. CLEAVER: If it is confined to the purchase of securities, would they not simply purchase $1,000,000—

Mr. VIEN: Just a minute. We do not hear anything.

The CHAIRMAN: We cannot hear, Mr. Cleaver.

Mr. VIEN: We have not heard the question so we will not understand the answer.

Mr. CLEAVER: Mr. McGeer is here now and I shall be glad to finish my question later.

Mr. VIEN: I would suggest that the question should be finished now for the record.

By Mr. Cleaver:

Q. I shall repeat my question for the other members of the committee. My question was this: If as to this $1,000,000 transaction we are discussing, the bank on receiving a deposit of $1,000,000 should decide simply to purchase securities, no loans being available to them, would they not purchase simply $1,000,000 worth of securities and let it go at that, and that ends the incident?—A. No, unless they were going to allow their cash ratio to remain higher than it had been before. Perhaps an illustration based on figures would be the easiest, and I will mention—

Q. May I indicate just one more question? If they invest the entire million dollars in securities they must pay cash for these securities?—A. Yes, that is absolutely correct so far as the individual bank is concerned.

Q. I should like to confine it to one individual bank and one individual group of transactions, so as to clarify the matter as far as possible in my own mind.—A. Yes. In the case of the individual bank which had received through a client an additional deposit of say $1,000,000 through that client depositing a cheque on the Bank of Canada, the individual bank's deposits would have gone up $1,000,000 and its cash would have gone up $1,000,000. If they then turned around and purchased some securities, and purchased them from someone who was a client of another bank—

Q. Let us keep to the one bank's transactions, if we may.—A. That I am doing.

Q. On that transaction the $1,000,000 is received and deposited in one individual bank. The bank sets aside 10 per cent of that as its proper reserve fund, and buys $900,000 worth of securities.—A. Yes.

[Mr. Graham Ford Towers.]

Q. Now, so far as that bank is concerned, the transaction is closed, is it not?—A. Assuming that the securities which it has purchased have come from someone who is a client of another bank, so that the bank loses the $900,000 in cash.

Q. So far as that one bank is concerned the question is closed?—A. It is through, yes.

Mr. McGEER: No.

By Mr. Cleaver:

Q. That is, the $900,000 worth of securities which the bank purchased on that transaction obviously have been purchased from someone holding these securities?—A. Yes.

Q. And in order to clarify the matter we are assuming that the party holding these securities is not a customer of the Royal Bank?—A. Yes.

Q. That party, first of all, being a customer of the Bank of Montreal, receives $900,000 in cash.—A. Yes.

Q. And he in turn deposits $900,000 with the Bank of Montreal?—A. Yes.

Q. And the Bank of Montreal take off 10 per cent— —A. Yes.

Q. —for reserves, and they re-invest $810,000?—A. Yes.

Q. In securities; and the transaction keeps on rotating through the banking system until the 10 per cent reserves have entirely exhausted the fund?—A. Yes.

Mr. KINLEY: He must go to the clearing house.

Mr. McGEER: That is not so.

Mr. TOWERS: That is exactly the case.

Mr. KINLEY: He must put it in the clearing house on that transaction and protect it with legals.

Mr. McGEER: This assumption of Mr. Cleaver's is on a premise—

Mr. VIEN: Mr. Chairman, could we request Mr. Towers to give the committee, uninterrupted, a statement in that regard?

Mr. TOWERS: That process recited by Mr. Cleaver is exactly the process that takes place until finally, in so far as the banking system as a whole is concerned, you will find that as a result of that addition of $1,000,000 cash to the reserves of the system, some $9,000,000 additional securities might well in the end be held by the system, and that the deposits have increased by $10,000,000.

By Mr. Cleaver:

Q. I simply asked that question to explode what to my mind is a fallacy. I refer to the statement that the bank immediately on receiving the cash expands its credit facilities ten times.

Mr. LANDERYOU: That is exactly what they do.

The CHAIRMAN: Order.

Mr. TOWERS: That is what I have recited in this process; over a period as it moves through one bank to another and then gradualy the reserve ratio falls again to the 10 per cent figure, or whatever it might be.

By Mr. Landeryou:

Q. But Mr. Cleaver tried to refute the statement that is made, that the banks expand on their cash reserves.—A. I do not think he does.

Q. That is what Mr. Cleaver said.

Mr. CLEAVER: I say it is the customers who expand, not the banks.

By Mr. Landeryou:

Q. Is it the customer who expands, or is it the bank?—A. The banks cannot expand unless they find someone who is willing to sell securities, or someone who is willing to borrow money.

By Mr. McGeer:

Q. With the deposit of $1,000,000 cash the banking system as a whole, under present banking practice, is empowered to increase bank deposits on a basis of ten to one for the purpose of making loans. We are talking about the banking practice, not the legal minimum. What I said was banking practice. The banks are empowered under banking practice and under our laws to expand the bank deposit money which is used for the purchase of securities and making loans, by nine times that is, one to ten.—A. And that is the result of the various transactions to which Mr. Cleaver was referring.

Q. What I think Mr. Cleaver has overlooked in his analysis is that one bank gets a deposit of one million, and then he operates that through the system as though at the same time no other bank got $1,000,000; but where you are operating under existing bank practices the whole theory of expanding on a basis of 10 to 1 is on the assumption that the banks will together move on an expansionist or contractionist policy and by going together they balance out on their clearing transactions to keep that level within the limit that can be sustained by a 10 per cent reserve of cash?—A. That is correct, but I also think that is the procedure outlined by Mr. Cleaver.

Q. Of course, but there are other banks doing the same thing at the same time?—A. In fact the detail of it is more accurate on the basis which Mr. Cleaver mentioned because it is likely that in our open market operations the purchase of $1,000,000 may be confined to one bank or perhaps to two. Then it is distributed in that way.

Mr. Deachman: Mr. Chairman, this committee now is following the usual course which we have developed in the last few days. It starts with an examination by somebody and develops into an examination by Mr. McGeer. Now, we have listened to Mr. McGeer's contentions repeatedly, time and time again. He has assumed the right to arrogate to himself a monopoly of the examination. I am going to ask, Mr. Chairman, that you as chairman of this committee will see that the privileges which have been extended to Mr. McGeer, far beyond the normal limit, shall be extended to the other members of the committee so that we may have the pleasure of hearing some of them. It may afford us the pleasure of hearing examinations other than those conducted by Mr. McGeer.

We have also had this difficulty; that we have waited time and time again, as we might wait for the coming of the Royal Family, for Mr. McGeer to start his examination. That was the case this morning. We were ready to start at 11.15 and we waited five minutes for Mr. McGeer. Five minutes is not much, but it has gone on so often that I ask you for a ruling.

Mr. Cleaver: I must apologize to Mr. McGeer because I did not intend to encroach upon his time.

The Chairman: I have talked to Mr. McGeer and Mr. McGeer says he can complete his examination within half an hour. I suggest that we allow Mr. McGeer the half hour to complete his examination.

Mr. Deachman: Is that final?

The Chairman: Proceed, Mr. McGeer. Let us not waste any time. Proceed.

By Mr. McGeer:

Q. Mr. Towers, in connection with the statement which you filed yesterday —have you a copy of it before you?—A. The figures, yes, I have.

[Mr. Graham Ford Towers.]

Q. Apparently it starts on March 11, 1935, to December 31, 1935, and I take it that the changes indicated there are the changes from that date?—A. Changes between those two dates. In the right hand columns you find the changes between March 11, 1935, and December 31, 1938, covering the total changes during that whole period.

Q. During that time are those the increases in the amount of cash made available to the merchant banks?—A. The left hand column shows changes in our position which would have the effect of increasing bank cash. The right hand column shows those changes which would have the effect of decreasing cash. Finally, at the bottom, it shows the net result.

Q. Have you included in this statement the total amount of cash held as of March 11, 1935?—A. That was on the preceding statement which I gave you but which I had to take back to give to the reporter.

Q. Take the item, Dominion and Provincial Securities. The first change there indicated is 35·6 millions?—A. Yes. If you are satisfied to do so perhaps the best thing would be just to take the last two columns which indicate the total changes to date, instead of year by year.

Q. Does his 35·6 millions in the column December 31, 1935, indicate the purchase of securities by the bank?—A. No, that indicates a sale.

Q. Then the next column of 46 millions; what does that indicate?—A. That indicates a purchase.

Q. And 13 millions indicates a purchase?—A. Yes.

Q. And 11 millions indicates a purchase?—A. Yes, and then finally the net result from March 11, 1935, to December 31, 1938, 35·6 millions indicates a purchase.

Q. Now, that was Bank of Canada cash put into circulation by the purchase of securities?—A. Yes.

Q. Those securities were purchased in the open market, not from the banks?—A. They were purchased from all possible sources. Some might have come from banks, some from the open market.

Q. Then the total amount of that cash, apparently, found its way into the possession of the merchant banks?—A. The column on the left indicates all the things which would tend to increase bank cash. For example, the increase in the gold coin and bullion. Perhaps I should remind the committee there that the major portion of that increase in gold coin and bullion arises from the re-valuation of gold which took place about July, 1935.

Q. In any event, 28·4 millions of sterling and United States dollars are held by the Bank of Canada?—A. Yes.

Q. That does not increase the merchant banks' cash?—A. Yes; any increase in our assets will tend to increase their cash. If we buy foreign exchange, what we get are United States dollars or sterling which we hold in bank accounts abroad. What we give are cheques on the Bank of Canada in the same way as we would give cheques for any other purchase, thereby increasing, other things being equal, the chartered banks' cash reserves in Canada.

Q. When you take the active note circulation the changes in cash there are 76 million?—A. Yes. In putting that in the column headed, "Changes which would have the effect of decreasing bank cash," it is because an increase in the amount of notes in the hands of the public, the amount of our notes in the hands of the public, would, other things being equal, decrease the cash reserves of the chartered banks.

Q. Can you tell me how the figures in the last column are related to the chartered bank cash held by merchant banks, notes in tills, etc.?—A. Yes.

Q. You have a total figure as at January, of 271 million?—A. Well, this comes to December, 1938. The figure shown in the summary is 257 million.

Q. $257,000,000 in what year?—A. December, 1938.

Q. I have $264,000,000 for that year?—A. Oh, yes; you are referring to the statement which shows the average on Wednesdays.

Q. Yes.—A. If you look at the statement of the chartered banks themselves, which is on another page of that summary and which shows the amount of cash held on the 31st of the month, you will see that that is $257,000,000. Speaking from memory, that statement which I put on the record yesterday showing the amount of the chartered banks' cash just prior to the opening of the Bank of Canada, indicated that they had then $215,000,000. Add $42,000,000 to that, as shown in the last column of this other statement, and you arrive at the figure of $257,000,000.

Q. I see. In any event, by that process the banks receive cash without borrowing from the Bank of Canada?—A. Yes.

Q. In addition to that cash the banks have, in the event of an emergency or in the event of an opportunity to expand their loans, the privilege of borrowing from the Bank of Canada as provided by the Bank of Canada Act?—A. In the event of an emergency, yes, that is correct. You were also saying in the event of an opportunity to expand loans. If it was a temporary expansion, a matter of a few months, shall we say, then borrowing would be appropriate. I would not think that semi-permanent borrowing would be appropriate. I think borrowing should be of a temporary character.

Q. What is the amount of the assets in the possession of the merchant banks to-day which would be considered as good security for Bank of Canada loans?—A. I have not got such a figure as that, Mr. McGeer. The amount they hold is so large, so much beyond anything that would be likely to be required, that we have never asked them to compile figures showing exactly how much would be eligible.

Q. But there are assets there for the expansion of bank deposits on Bank of Canada loans to the extent of several billions of dollars?—A. Undoubtedly; at least, in all probability in the event of an emergency, but that borrowing should be regarded as a temporary matter. In other words, if the business of the country was expanding to an extent which made a considerable increase in loans by the chartered banks desirable, I think the proper way to deal with that might be for us to expand the cash reserves of the chartered banks by the same methods as we have used in the last few years, and not to rely on that expansion being produced by borrowing, because under the circumstances the borrowing would have to be of a rather permanent character which would not be desirable.

Q. Mr. Towers, the monetary system under which we are operating reflects something of the improvements in monetary management and control that have been established in Great Britain?—A. Yes.

Q. As a matter of fact, we have followed in large measure the general program of making or of setting up a system under which a very substantial increase in domestic currency can be made available through the banking system under the changes that have been made?—A. Yes.

Q. One of the outstanding changes in the system is that we have been able in a measure to eliminate the restrictions of the pre-war gold standard and even the post-war international exchange gold standard and to divorce domestic currency control and management from the influences of international exchange variations?—A. Yes.

Q. You would no doubt agree with McKenna who, in a statement published on February 11, 1939, in the *Monetary Times*, says:—

> The great achievement of monetary progress since 1931 is the discovery that our domestic business can be protected against extraneous developments with which it has nothing to do and for which it is not responsible, and that we can expand or contract credit according to internal needs. To this extent at least we have become masters in our own house.

[Mr. Graham Ford Towers.]

A. Yes; I think he should have worded that a little more carefully because he said there "protect our domestic business from extraneous developments," or some such words. I think he had in mind protecting the domestic money markets from monetary movements of a non-business character, inward or outward flights of capital, and things of that kind. He did not, of course, mean to suggest that actually business in Great Britain was not materially affected by business developments elsewhere.

Q. No, but what he does say is that they have set up a management of internal currency there which can be carried on independent of international influences.—A. Yes.

Q. Both resulting from currency exchange changes and trade changes.—A. Not trade changes, no; he would not suggest that. What he really means, getting down to brass tacks, is that the domestic money market in the United Kingdom does not need to be materially affected by substantial inward or outward movements of capital to the extent of the resources of the exchange fund.

Q. Well, as I understand the figures of England's internal and external trade, England runs about 60 to 40. Canada runs from 15 to 17 and 85 to 83.—A. I do not quite understand those figures.

Q. I mean our total volume of international trade as contrasted with our volume of internal trade. Our international trade is about 15 to 17 per cent of our total.—A. I thought it was about one-third.

The CHAIRMAN: In some years it varies.

By Mr. McGeer:

Q. I was taking it on the average.—A. I think it is about one-third.

Q. How do you measure it?—A. For example, export trade is thought to contribute about one-third to the total national income.

Q. Here?—A. Yes.

Q. And in England how much?—A. My recollection is that England is something less than half that, but I am only speaking from memory; I would have to look that up.

Q. Our international situation is not as extensive as Great Britain's?—A. On trade it is more so.

Q. It is more so?—A. Yes, much more so.

The CHAIRMAN: More highly specialized.

Mr. TOWERS: As I say, I think our national income depends to the tune of about one-third on exports, whereas in Great Britain, speaking still from memory, their dependence is less than 16 per cent.

By Mr. McGeer:

Q. Could you give me a statement of these figures on the basis of your compilations?—A. Yes.

By Mr. Vien:

Q. By "national income" do you mean the government income?—A. No; the country.

Q. The nation?—A. Yes.

By Mr. McGeer:

Q. You filed another statement on page 559 of the net repatriation of Canadian government bonds, dominion and provincial direct and guaranteed and municipal issues. Could we have that broken down as to the nationals, provincials and municipals?—A. Yes.

Q. Could you give us a statement on that?—A. Yes.

Q. It does not appear to me that that statement is very clear. For instance, the plus sign denotes net inflow of capital; the minus sign indicates a net repatriation of Canadian bonds?—A. Yes.

Q. Just what does that mean?—A. The outflow of Canadian money. However, we might make those statements covering the breakdown a little clearer in that respect.

Q. Yes. For instance, under 1927-37 you have plus 261·0 What does that actually means?—A. That means an inflow of capital. In other words, an increase in the foreign holdings of those particular bonds during the ten years.

Q. Would that indicate that our foreign debt has decreased that much? —A. No, on the ten year period it would indicate that foreign ownership of dominion, provincial, direct and guaranteed issues and municipal issues has increased by that amount.

Q. To-day, over a ten-year period.—A. While the repatriation, as you can see, has been quite substantial in 1934, 1935, 1936 and 1937 there were earlier years when a very heavy reverse movement was taking place, particularly in 1930,

Q. Now, could you give me a statement of the increase in the foreign debt from 1928 to 1932?—A. The totals of those five columns there?

Q. Yes; break it into the five year periods and also give it by years and also by the export of gold during that period.—A. Yes.

Mr. Landeryou: That is just federal; not provincial and municipal.

Mr. McGeer: A breakdown in the national, provincial and municipal, showing the amount of the balance each year and showing the amount of gold exported each year.

Mr. Cleaver: On what page?

Mr. McGeer: Page 559, on the question of whether or not we are improving our situation with regard to that.

By Mr. McGeer:

Q. Well, now, Mr. Towers, I asked you the other day if you would check over a suggestion I made with reference to Canadian defence expenditures and British defence expenditures, and I think I suggested a number of factors of population, national income, national wealth, external trade etc., and which, measuring our defence expenditures, I suggested should be, on the basis that England is spending something over one-half billion dollars a year.—A. I did not realize that that was left as a question. I have not prepared any figures on that. Have you got that on the record?

Q. No, I will find that and give it to you later.

Mr. Landeryou: You said "should be on the basis"; do you mean should be or could be spent on national defence?

Mr. McGeer: Could be or should be, whichever you like.

By Mr. McGeer:

Q. Now, for instance, when we talk of controlling the issue of currency and credit within a nation in terms of public need, one of the things that stands out pre-eminently in that regard is the defence of the nation.—A. I should have thought that public need in that respect meant public need for a medium of exchange.

Q. Yes, and a medium of exchange needs to finance a defence program I say is one of the pre-eminent things.—A. I think the need for a medium of exchange is just what that means—a medium of exchange, and that the needs for various forms of expenditures are needs of another character; they are needs for the employment of certain of the resources of the country—

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men and materials and so forth—in these various things; and those needs may be supplied by taxation or by borrowing. That need may be quite distinct from the need for a certain volume of medium of exchange.

Q. But, in any event, one of the powers that is supposed to be available to governments through the establishment of the central bank system, such as the Bank of Canada, is the control of the rate of interest?—A. The influence over the rate of interest.

Q. Yes, the influence over the rate of interest.—A. Yes.

Q. Do you suggest the Bank of Canada, working in conjunction with the government, cannot control the rate of interest at which public borrowings will be made?—A. I think that depends on the action of the investing public and of the banks, that those actions will be influenced by central bank policy, but that control in the sense of saying to the public, "you must buy dominion bonds at such and such a figure" is not in the legislation.

Q. But do you not think that Mr. McKenna suggests and Mr. Chamberlain has stated that under their policy in England the government, working in conjunction with the Bank of England, can control the rate of interest?—A. They can strongly influence it.

Q. Can we in Canada?—A. We can as much as they can, yes.

Q. And if we maintain an effective Bank of Canada policy, governmental borrowings can be at a rate of interest definitely influenced by the Bank of Canada?—A. Definitely influenced, yes. If you have a situation in the country where capital development is going on on a very substantial scale and you find that private corporations and others are offering to pay X per cent interest on bond issues or preferred issues or common stock issues and that people are more inclined to buy those, I do not see how you could, under those circumstances, except through the exercise of force, make people buy government bonds at half the going rate.

Q. Well, now, what Mr. McKenna suggests in his statement of May, 1939, at page 406 is:—

> To make this interpretation convincing, the immediate and basic necessity is the full restoration of the cash basis for the banking system.

And he states that that should be done by the issue of cash and the issue of treasury bills?—A. And he believes that that would have an influence on interest rates to make them lower.

Q. What he says following is this:—

> This would make it possible, first, for the banks to take up a share of the expanding volume of treasury bills and would tend towards a resumption of the low rates of discount thereon, which, in past years, have been so helpful to the government's finances.
>
> Finally the authorities, by both statement and action, should leave the markets and the community generally in no doubt whatsoever that official intention consists in the determination to resume and maintain the former cheap money policy. Everything is to be gained, by the government itself, by a policy of re-expansion, so far as can be seen from a study of current economic and financial conditions, nothing is to be lost thereby. Ordered and restrained re-expansion is not to be regarded as a desperate expedient to meet some obscure emergency, but as a sound and sensible and plainly comprehensible course by which the government can best serve its own immediate financial interests, as well as the interests of business, which is the source of all capital and revenue.

Now, I think that is a positive statement by Mr. McKenna?—A. Yes, he said there "will tend towards the resumption of the lower rates."

Q. Yes.—A. Yes.

Q. Both for government and for business?—A. Yes.

Q. And he says that our money policy can be maintained by the bank which will be a tremendous aid in government financing?—A. Yes, he does suggest that. He does not suggest that under any conceivable circumstances it is possible definitely to fix a rate. To do that you really have to have a totalitarian economy because you have to be able to tell private people how much they shall borrow and at what rate.

Q. Yes, but you do not mean to suggest that Reginald McKenna is advocating here the establishment of a totalitarian economy for England?—A. No, I do not. That is why he used the words "tend towards" and influence, etc.

Q. Now, can we in the Dominion of Canada, through the powers of our bank and the governments, influence the rate of interest on financing a defence program?—A. The record of the last five years indicates that central bank policy can have a great influence on rates.

Q. In the light of that policy, what would you suggest should be the rate of interest on which we could finance public expenditures on a defence program?—A. I could not make any suggestion along those lines, Mr. McGeer.

Q. Have you any idea as to what the range would be?—A. No, because I do not know the circumstances of the next year or the year after—I am not a prophet.

Q. We have been borrowing from the merchant bank system for as low as $1\frac{1}{2}$ per cent?—A. The banks have been buying government securities short-term, at those rates and lower, yes.

Q. Well, why should we have to pay more than that in a time of national emergency, when the credit strength of the country is being employed to defend the integrity of the nation?—A. One should not rely for one's entire financing in a case like that on an expansion of the medium of exchange, because I assume that that would not necessarily be in the best interests of the country. In other words, the supply of the medium of exchange should be determined in the best interests of the country irrespective of the total spending requirements of governments at any given time.

Q. Yes?—A. If one did not do that, then you might come back to the point where all spending requirements were covered by the issue of additional currency, with the effects which we have referred to previously during these meetings.

Q. But if we wished to do that under our present system we could do it?—A. Oh, unquestionably.

Q. And we would save very greatly in the cost of financing defence as far as the government expenditures were concerned?—A. At the cost of the people, of course.

Q. I am talking about the government now.—A. I cannot divorce government from people.

Q. We will take up the people later. We would save, as far as the government is concerned?—A. Not if the situation became so disrupted that business was badly affected. In that case governmental revenues would be affected.

Q. Well, now, in the first instance we would save on expenditures by the government, but we might produce an inflationary condition through the increase of the volume of currency in issue that would be disastrous in its results on the whole economy?—A. Yes.

Q. But under our system we can create and put into circulation all the money that the government decides to spend at any one time, or over a period of years?—A. Yes.

Q. That is true. The government has unlimited powers of taxation—that is, the federal government.—A. In theory; in practice, of course, it must be restrained by various considerations.

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Q. What is necessary to maintain reasonable going concern activity; but I put this proposition to you: while a government has power to issue unlimited amounts of money there never need be a depression for want of the medium of exchange in the economy of the nation?—A. No.

Q. While a government has unlimited powers of taxation and can withdraw from circulation any amount that they wish or see fit to withdraw, there should never be any cause for inflationary conditions as a result of too much medium of exchange remaining in circulation?—A. Well, a government would not want to create a situation where an inflationary movement got under way because of certain actions which it had taken and then say, well, we can cure that by imposing particularly heavy taxation. Then is has created two disruptive movements, one on the way up and one on the way down. The imposition of heavy taxation suddenly has a very disturbing effect. The government, I think, considering itself as the sum total of the people, will want to maintain the greatest degree of stability possible.

Q. Yes, and if the government maintains the issue of the volume in circulation and balances it reasonably discreetly by withdrawing from circulation any excess that is unnecessary to maintain going concern activity, or any excess that might tend to cause inflationary conditions, then the government working with the Bank of Canada and the merchant bank system, could maintain avoidance from deflationary depressed conditions or inflationary boom conditions?—A. Yes; in other words, the government should not go further in respect to urging an increase in the medium of exchange than prudent and reasonable common sense indicated would be desirable.

By Mr. Deachman:

Q. May I ask you a question there, if Mr. McGeer will pardon me one second? Do you recall the time when Mr. Roosevelt said prices of farm products and materials were getting too high?—A. In the early months of 1937, yes.

Q. And the result was a rather sharp crash in prices?—A. It came very shortly after these remarks; I do not suggest—

Q. I am not suggesting there is a relationship.—A. No.

Q. But there is a possibility then, if the government were to start to impose excessively heavy taxation the same result might follow; or if you were to turn the bank policy sharply in reverse, a similar thing would follow?—A. It might.

Q. Quite probably?—A. Of course, having said—and this I believe to be the case—that domestic monetary policy will not have a major influence on the prices of primary products in Canada, except to the extent that it results in a depreciation of our exchange, it also follows that if a boom situation has developed the high prices of primary products here will depend to quite an extent on the level of exchange. At the moment the policy is sharply reversed you will probably find that the exchange value of the dollar increases very materially, and then the result you mention will take place.

Q. The result would be, so far as the nation is concerned, if you changed your policy, a depression of the consumers income, and therefore a lack of purchasing power?—A. That is right.

By Mr. Vien:

Q. Why is it more damaging to our general economy to issue $100,000,000 of bank notes—Bank of Canada notes—than to issue $100,000,000 of dominion government bonds?—A. If that issue of bonds is not financed by expansion of bank deposits you are then asking for the savings of the people; whereas by increasing the currency you are simply increasing the amount of the medium of exchange.

Q. Which will take its form by being deposited in banks to the credit of the depositors?—A. Yes.

Q. I am trying to find the real cause of the difference in our general economy between those two processes. I need $100,000,000 for government financing. In one case I issue $100,000,000 of interest bearing bonds and in the other case I issue $100,000,000 of Bank of Canada notes.—A. Yes.

Q. To buy what I require. I need guns; I need munitions; I need this, that and the other thing. I buy these commodities with Bank of Canada notes instead of financing through the sale of $100,000,000 of bonds.—A. I think that the fundamental situation there is a distinction between real savings and those which are referred to in terms of money. I mean savings that are bank deposits.

By Mr. Cleaver:

Q. Is it not true—

Mr. VIEN: Just a minute. I should like to finish this.

Mr. TOWERS: For example, I think in certain of Mr. Landeryou's remarks yesterday, that point really came in. If we think of savings as represented by saving deposits, I think we have an absolutely wrong conception. Savings are, in fact, equipment which we have in the country, they improved farms, the factories, machinery, the stock of goods on hand, and so forth. They are not simply saving deposits. I wonder if I might just elaborate on that by saying that an individual saves by consuming less than he produces. He may do so merely in order to defer his consumption or he may do so with the purpose of adding to his productive equipment. Now, the same is true of a nation as a whole. Its saving in any year is measured by the surplus of goods produced over those consumed, including in consumption, allowance for the wearing out of capital goods.

The annual savings of a given individual often take the form of an increase in his bank deposits, i.e., he keeps his savings in the form of a claim to goods and services in general rather than in the form of specific goods which he holds for future consumption or operates for the purpose of producing future goods. This merely means that other people act as his agent in the holding of consumption goods or the utilization of capital goods. The increase in deposits does not measure the savings but merely reflects transfers in the ownership of the specific goods which are saved.

Speaking in terms of the country as a whole we can only think of its annual savings in terms of real goods and services. The total amount of a country's bank deposits does not necessarily indicate the amount of its accumulated savings. It merely shows the amount of liquid claims owned by one portion of the community as opposed to various types of debts owed to the banks by other parts of the community. Annual changes in total bank deposits do no more than give some indication of the way in which the community's annual savings are being administered or utilized.

Perhaps a simple example will suffice to show that changes in total bank deposits have no necessary connection with real national savings. An individual with $10,000,000 worth of securities might decide to sell them to a bank. This would increase total bank deposits by $10,000,000 but of course does not necessarily represent savings in the real sense on the part of the community as a whole or even the individual.

By Mr. Landeryou:

Q. Mr. Towers, what I should like to have is an answer to this question, and it is very similar to the question that was asked by Colonel Vien. The government has purchased credit from the banks to the extent of over $400,000,000 in the past two years by simply turning over their bonds to them and that resulted—

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A. Not exactly turning over their bonds to them. The banks have bought these bonds whenever and wherever they could because it was considered desirable during that period to expand the volume of the medium of exchange.

Q. Now, instead of expanding the bank deposits in that manner, had the government financed by directly issuing that sum of over $400,000,000 in the form of currency, what would have been the difference?—A. The difference would have been that the bank's cash would have increased by over $400,000,000 and then we would come to that process of expansion which follows an increase in cash.

By Mr. McGeer:

Q. On the basis of ten to one?—A. Yes. Mr. Tucker in earlier meetings suggested the government could have had the economy of issuing currency in the form that you mention, and that any subsequent expansionary result could have been avoided by increasing the legal minimum cash ratio of the banks. As we pointed out, and it is on the record of earlier proceedings, that procedure would in effect be a tax on bank deposits.

Q. Well, no more so than under the present system. That raises the contention in the argument that we should issue it rather than borrow it. It costs the people, if we borrow it, more than if we issue it?—A. I do not see that.

Q. Let me take a simple illustration. Let us proceed with $1,000. If we take a $1,000 bond which the government hands to the bank, the bank issues $1,000 credit to the government in the form of a bookkeeping entry by simply using their fountain pen. There is then $1,000 increase in the total deposits of the people of Canada. The bank has an asset in the form of $1,000. Is that correct?—A. You mean in the form of a government bond.

Q. $1,000 government bond.—A. Yes.

Q. They have there a revenue producing asset.—A. Yes.

Q. Which carries a rate anywhere from 1 to 5 per cent?—A. No, not 5 per cent.

Q. What are the highest rates paid on any of the $1,400,000,000 of bonds that they have at the present time? What is the highest rate that is being paid on any of those bonds?—A. I cannot recall; I think $4\frac{1}{2}$ per cent.

Q. Then we will just say 4 per cent. It might be nearer 4 per cent.—A. Well, I do not think so, because if the banks had bought any of those in recent years they would have paid a substantial premium for them.

Q. Let us say 3 per cent.—A. If one is speaking of the securities which they bought during the last few years, you will have to go, I should say, to an average of something less than 2 per cent.

Q. No matter what the rate of interest is, they have a revenue producing asset?—A. Yes.

Q. They have also, as you suggest, a liability in the form of this deposit?—A. Yes.

Q. But that deposit must be taxed, whatever the rate of interest is, to give the interest to the bank, whenever the tnterest falls due on the bond.—A. No.

Q. Where is the government going to get that 2 per cent or 3 per cent or 4 per cent to pay the bank interest on that bond?——A. From all the citizens of the country.

Q. From all the citizens of the country?—A. Yes.

Q. It can only come from them if there is money in existence. What it means is the government has to find the tax somewhere to pay the interest on this bond, and because of that there is a reduction in the total amount of deposits in the hands of the people.—A. Coming from all the people.

Q. Yes?—A. Not just the depositor.

Q. Not just the depositor; and as the goverment gets this money your taxation goes on to the bank, and the bank is entitled to use that for general operating expenses. Is that not right?—A. And they have to pay interest on the deposits.

Q. If the government was to pay off that bond or redeem that bond, they would have to tax all the people to pay that $1,000; is not that right?—A. That is true, to repay the people.

Q. To repay the bank. The bank has the bond. Not to repay the people. The bank holds the bond of $1,000. If the government wants to redeem that $1,000 from the bank they must tax the people the $1,000, lowering the amount of bank deposits they have.—A. You are assuming there that in that event the bank assets in the form of government bonds and their liabilities in the form of deposits will be going down at a substantial rate, even although the cash holdings of the banks did not change. You are assuming there a condition of extreme deflation. I do not assume that any such process can go on under the conditions that you mention; but we have gone over this exact feature before in extenso at least once.

The CHAIRMAN: Mr. McGeer was to complete, and he has another two or three minutes, then Mr. Kinley is to follow. There is a certain amount of justice in the protest that some members are occupying too much time and other members are not given an opportunity. I do not want to intervene, Mr. Landeryou, when you asked the question, but I do think that the question should not be continued at great length.

Mr. LANDERYOU: I was just going to complete—

The CHAIRMAN: Everybody is going to complete. Please let us go on.

Mr. LANDERYOU: In the 12th report Mr. Towers is reported as saying that banks cannot create assets for themselves. That is the statement appearing in the record.

The CHAIRMAN: We have gone over that over and over again.

Mr. LANDERYOU: I do not agree with it.

Mr. TOWERS: On the previous point—

Mr. MCGEER: We have got the evidence on the record.

Mr. TOWERS: On the previous point you mentioned, that is that question of the issue of currency for financial purposes, it appears on pages 89 and following, 95 and following, 197 and following.

The CHAIRMAN: Go on, Mr. McGeer.

By Mr. McGeer:

Q. Mr. Towers, when my trend of thought was broken by Colonel Vien I was coming to the point that Colonel Vien mentioned. What I want to suggest to you is this; that if we could issue currency and meet public obligations without the payment of interest and avoid inflationary conditions, we would be able to effect a saving in the cost of the financing of public enterprise?—A. Not to the public as a whole; not to the country as a whole.

Q. If we could avoid inflationary conditions?—A. No.

Q. Where would the expenditure to the public lie?—A. You have an interest-free loan from the public in that case.

Q. Supposing instead of having an interest-free loan we increased the volume of currency in circulation by the issue of currency?—A. That is what I mean.

Q. Why do you say that when the government issues currency it gets an interest-free loan from the public?—A. Because under the circumstances that you mention the public would be holding that currency idle. If it were not holding it idle you would have inflation. Holding it idle, they are certain under the circumstances to be unable to get any interest on it and, therefore, the effect of what you have just stated, in simple terms, is an interest-free loan to the government.

Q. So that you conclude all public financing must be done by paying interest?—A. Except to the extent that due to the provision of a medium of exchange sufficient for the requirements of the country, but not more than

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sufficient, the government in that sense, or the Bank of Canada which, in turn, pays its profits to the government, will have the earnings resulting from such operations.

Q. All right. The Bank of Canada holds at the present time $164,000,000 of dominion, provincial short and long-term securities?—A. Yes.

Q. Whatever interest is paid by the government on those securities is paid to the Bank of Canada?—A. Yes.

Q. And the profits of the Bank of Canada go in the main to the government?—A. Yes.

Q. So that in the instance of this $164,000,000 of securities, the goverment, by its ownership of the Bank of Canada, does not pay any interest for which it does not get the benefit itself?—A. That is right.

Q. Then what is there to stop that amount of $164,000,000 being increased to $500,000,000?

Mr. CLEAVER: 10 for 1 expansion.

Mr. McGEER: No, no, let him answer.

The CHAIRMAN: Mr. McGeer only has a few seconds left.

Mr. McGEER: Mr. Chairman, I object to this talk of a few seconds.

The CHAIRMAN: Mr. McGeer, we have given you thirty-five minutes and you asked for thirty. These other members must be heard.

Mr. McGEER: All right, we will deal with that when we come to it. The majority of this committee are going to rule the operations of this committee.

The CHAIRMAN: Then we shall rule. We will take a vote.

Mr. McGEER: I have been in this committee and on another governmental committee in which I have undertaken a real amount of work.

The CHAIRMAN: Yes.

Mr. McGEER: I have been here part of the time and I have never objected to any member intervening with questions.

Mr. LANDERYOU: That is right.

Mr. McGEER: I have tried to the best of my ability to make a contribution to the work of this committee and I want to say this, that no more important function has been undertaken in four years than the consideration of the finances of this country.

Mr. LANDERYOU: Hear, hear.

Mr. McGEER: And this committee has done more to elucidate some of the basic problems of financing in Canada than in my opinion has been done in twenty-five years. If a governmental committee is going to take the attitude that this thing has got to be shelved, and wiped out and not a complete investigation made, then there is going to be something to say about that. This is not the only place where members of the committee can talk. Now, I have taken the insults from Mr. Deachman personally directed at myself in what I think is an extraordinary way. As a member of parliament I have some rights here.

The CHAIRMAN: Yes.

Mr. McGEER: Even though I come from the west to a parliament dominated by easterners, I want to say this, that we in the west—

Mr. VIEN: Mr. Chairman, I rise to a point of order. I am sure that it is not within the order of our reference to determine whether the east or the west dominates, and I am sure that Mr. McGeer is not seriously contending that.

The CHAIRMAN: No, but, Mr. McGeer, may I just make this statement?

Mr. McGEER: Yes.

The CHAIRMAN: Two gentlemen gave way to you.

Mr. McGEER: Willingly.

The CHAIRMAN: Willingly. And there are at least six members who want to elucidate some matters in connection with this inquiry. I would say offhand that you have occupied at least one-quarter or one-fifth of the time of this committee which consists of fifty members, and some of them who are monetary experts wish to be heard.

Mr. McGEER: Quite true.

The CHAIRMAN: The session is coming to a close some time this month and it seems to me that they ought to be given an opportunity to be heard. The arrangement was made that you should have one-half hour this morning, at your own suggestion. It was not my suggestion; you mentioned thirty minutes. By actual count now you have had thirty-five minutes.

Mr. McGEER: I have actually had twenty-four minutes by my count.

The CHAIRMAN: My count is thirty-five minutes. I suggest you finish.

Mr. McGEER: You must take some time out for interruptions.

The CHAIRMAN: I took time out. I have my stop watch out. Mr. McGeer, I suggest you complete your inquiry within the half hour, half past eleven.

Mr. LANDERYOU: It is unfortunate that the session is coming to a close. I believe Mr. McGeer has a lot of valuable information.

Mr. DEACHMAN: Carried.

Mr. McGEER: There is no sign of this session coming to a close.

Mr. LANDERYOU: I do not see why we should not allow every member all the time he wants.

By Mr. McGeer:

Q. Now, Mr. Towers, in that process of discounting bonds by the Bank of Canada we do avoid the payment of interest?—A. Except to the extent that a portion of it is taken up in the operating expenses.

Q. I should like to suggest this to you. McKenna's statement was that a great achievement in the monetary reform program had taken place since 1931, and I take it that one result has been to segregate in a measure domestic currency from international exchange? That is what he states in that article.—A. That should be very carefully considered, of course.

Q. I am taking his statement.—A. Yes. Well, the thought which lies behind that statement is really this: Over a period of years there was a great inflow of capital into England, that is, an inflow of money from other countries. It took the form of a great increase in the gold holdings of England. Instead of that increase in gold holdings affecting the cash situation of the English banks and the whole monetary situation of the country, it was offset or sterilized by the operations of the stabilization fund. Conversely, when the outward movement set in some little while ago, gold was supplied in large measure from the gold holdings of the stabilization fund. In spite of that, of course, sterling, as we know, declined, taking an average figure, from around the $4.95 level in New York to $4.68. They have not divorced themselves from extraneous developments in any way, shape or form, but they have got machinery by which they can within certain limits offset the internal effect of great movements of capital into and out of England. That is the sum total of the story. That is what Mr. McKenna meant to say; that and nothing more.

Q. Do you agree with this statement: "The great achievement of monetary progress since 1931 is the discovery that our domestic business can be protected against extraneous developments with which it has nothing to do and for which it is not responsible, and that we can expand or contract credit according to internal needs. To this extent at least we have become masters in our own house." Do you agree with that statement?—A. I agree in so far as it refers

to internal monetary matters, but that statement of his, in which he refers to divorcing business from external developments, is, I consider, badly worded, and I do not believe he could have meant it in that sense.

Q. I will put one final question to you. Do you think the time has not come when, in addition to divorcing internal from international exchange as far as it can be done, w should come to a consideration of divorcing public finance from private finance?—A. I do not know what that means, Mr. McGeer.

Q. What I suggest to you is that we should set up the Bank of Canada as a real bank of the Dominion of Canada; that we should set up a branch Bank of Canada in each one of the provinces that would become the bank of the provincial, municipal and local governments; that those banks should function as the public banks, for the maintenance of public accounts, public finance and public banking; that the merchant banking system should operate as the banking system of private business and that the two should be treated on a separate basis. To do that we should create a power of the Bank of Canada to issue money that would not be a reserve of cash for mechant banks on which to issue bank deposits, that is, in addition to the reserve bank cash which is also issued; that by developing that kind of a system we would be able to maintain a power to equate through public expenditure the volume of currency needed to sustain a rational rate of progress.—A. That means the setting up of a second currency. The second currency will be just as liable to depreciation as the first one, if it is issued in excess of the requirements of the country for a medium of exchange. Underlying most thoughts which are expressed on this subject, is the thought that money is wealth, and unless and until one can agree that money is needed, as a medium of exchange there will never be possible an agreement on anything else.

Q. Well, when we come to the question of whether or not we are getting too much money in circulation—

Mr. DEACHMAN: Mr. Chairman, the time is up and I am going to ask for your ruling.

Mr. McGEER: I do not expect anything from Mr. Deachman but bad manners.

Mr. DEACHMAN: Not so long as you monopolize and arrogate to yourself a superior intelligence which you neither by the grace of God nor culture possess.

Mr. McGEER: I certainly would learn nothing from you.

The CHAIRMAN: Please, gentlemen, order. I think your time is up, Mr. McGeer.

Mr. McGEER: I just want to finish this one question.

The CHAIRMAN: Is this the second question? Oh. well, finish it and let us get on.

Mr. McGEER: We are getting on and we are doing very well.

The CHAIRMAN: Well, I doubt that.

Mr. McGEER: I know you do not think much of it but some of us do.

The CHAIRMAN: I object to that statement.

Mr. McGEER: There are other—

The CHAIRMAN: Will you allow me to continue? I have given you every opportunity I could consistent with the rights of the other members to be heard.

Mr. DEACHMAN: And more.

Mr. McGEER: And you have only one member objecting.

The CHAIRMAN: Oh, I beg your pardon.

Mr. McGEER: When I make a statement—

The CHAIRMAN: Will you please listen to me?

Mr. McGEER: It is all right but—

The CHAIRMAN: Will you listen to me, please. There are five or six members who wish to take part in this discussion and they cannot take part in it as long as you monopolize the investigation.

Mr. McGEER: I am not monopolizing the investigation, and I object to that.

The CHAIRMAN: I note the objection.

Mr. COLDWELL: We are anxious to hear what Mr. McGeer has to say. I am one of those who wish to hear him. However, in spite of what we would like to hear from Mr. McGeer there are other members who have attended this committee again and again to present their views, and they should be given their opportunity, and then Mr. McGeer could come on at some other time.

Mr. McGEER: I merely want to finish the question.

Mr. COLDWELL: We want the others to appear before this committee.

By Mr. McGeer:

Q. Mr. Towers, if I might put this to you: in the avoidance of inflationary results from the issue of currency you may suppose these three signs: "So far, however, there are no signs of inflation, present or immediately pending: prices, whether of raw materials or finished goods, are not rising, nor is there evidence of any widespread pressure on supplies; no shortage of labour has appeared, except perhaps . . ." in a few instances. Now, does not he indicate there the signs of inflation that are apparent to any government upon which a government can act to either decrease its issues of currency, to withdraw them by taxation, or to withhold the expansion until progress catches up?—A. Yes, he does.

Q. Now, do you see anything inherently impossible in meeting, through the cessation of currency or through the withdrawal of currency by taxation, inflationary conditions which were arising from public expenditure of national currency?—A. I am assuming there that the situation won't have gone far enough so that it is too late to stop without creating a disorganized situation.

Q. Yes; but those are the signs that warn you against that, and if you take advantage of those signs there need be no inflationary condition resulting from excessive expenditure of national currency.—A. Take warning from them early, yes.

Q. And you could avoid inflation—that is, avoid the disastrous consequences of inflation from national spending of national currency?—A. I think so.

Q. So there is no reason why we should not employ national currency to finance defence internal emergency needs, is there?—A. It depends upon the amount.

Q. But if you take advantage of those signs which will appear we need not be afraid of being unable to meet the situation?—A. If one announced the intention of doing that on a large scale I think you would have signs the next day.

Q. Yes, but you could stop the issue.—A. Before it ever took place, and the result would be that you would upset the people and, in fact, have done nothing else.

Q. Very well.

The CHAIRMAN: Mr. Kinley.

Mr. KINLEY: Mr. Chairman, before I direct any questions by way of examination to the Governor of the Bank of Canada, I desire to make a few observations with regard to impressions I have received as a member of this committee, and also as a result of my experience in the practical business world. You have said that some of the members are monetary experts; I am not a monetary expert; I am simply a practical business man who represents the

people of his constituency. I am sure that those of us who heard Mr. Clark, the only member from the maritime provinces who has spoken on this committee, and those who have heard Mr. Taylor and Mr. McGeer will realize that there is a great difference of opinion with regard to monetary matters in this country, and that it seems to be a geographical difference. And the question immediately arises: Why should that be? Mr. McGeer says that this country is being dominated by the east. Well, if that is so, so far as the maritime provinces are concerned we have not dominated it by talk, because the time of this committee has not been invaded to any great extent by people from the maritime provinces.

Mr. LANDERYOU: He means the central provinces.

Mr. KINLEY: In so far as the people of Nova Scotia are concerned, they have opinions with regard to banking because they have a background and a history. There was a time in Nova Scotia when every town of importance had a bank, the result of an economy which existed for a long time. Nova Scotia owed her preeminence in the industrial world to wooden ships, and the wooden ships built in Nova Scotia were the finest and the best transportation mediums on the ocean that existed in the world at that time. Perhaps the ships of the New England states—ships built at Boston and such other ports as New Bedford were equally good—but the economy in Nova Scotia was then nearly a perfect economy. Ships were built in the shipyards by the artisans of Nova Scotia, men who were ship builders, and those ships were sailed to all parts of the world by Nova Scotians. They brought back to Nova Scotia a great deal of wealth, resulting in the creation of many local banks that were most successful for a time and which was, perhaps, to a degree responsible for the birth of the larger banking system of Canada. May I refer to the town of Yarmouth, N.S., which at one time had more tonnage on the ocean per capita than any other place in the world. That was true to a lesser degree, perhaps, to other points in Nova Scotia—Pictou, for example—Liverpool and other ports built their ships and sailed them. The shipmaster was a banker, because he had to do his own banking in the foreign ports of the world, and at home the people who were interested in shipping formed their own banks. I am told that in Yarmouth at one time that one family, after their ships had arrived, had $900,000 in the house and they did not know what to do with it. At another time there was a raid on a bank in Yarmouth and one of the directors was telephoned that there was a raid on the bank and he had $250,000 in his house, and he carried the money in a suitcase through the back door of the bank while the customers carried the money out the front door. So you will see that in as far as Nova Scotia is concerned we have opinions—we have set opinions that have come to us from experience in the banking world, and we can look back to days of prosperity. Those days were the best when banking was, to use an expressive term, in flower in the province of Nova Scotia.

With the passing of wooden ships and the introduction of steam those businesses began to decline with the result that the banks in Nova Scotia—the smaller banks failed with considerable disaster to our economy. In the city of Halifax and in some other places they survived and became either a part of the national banks of Canada or extended themselves into Canadian banks. For instance, I think the Royal Bank had its background in the Merchants Bank of Halifax. The Bank of Nova Scotia still exists, although it is a Canadian concern to-day and can hardly be called a Nova Scotia bank.

Now, many people in Nova Scotia blame our troubles on confederation, and they say that we had good times before the days of confederation and that since confederation Nova Scotia has steadily gone back. I do not attribute our troubles altogether to confederation; I attribute our troubles to a large extent to the passing of the wooden ship—the march of progress. Nova Scotia fell back, as it were, because of the change in the transportation of the world

into iron ships and big companies and steam; for that reason Nova Scotia has not enjoyed so prosperous a day since. Of course, export trade has something to do with it. The export trade, and also the trade of many countries of the world, was carried by Nova Scotians, and in those days they realized their ambitions and they had the strength of people who are of the sea and who naturally became prosperous because of their efficiency in those days.

We are told that we in the east are orthodox in regard to banking and with regard to money matters; and from Mr. Clark's speech I would say that Mr. Clark is fairly orthodox. He comes from Fredericton in the province of New Brunswick and represents, perhaps, in quite an orthodox way the opinion of many people in the maritime provinces. I looked up the meaning of the word "orthodox" in the dictionary and I see that the meaning is given as, sound in opinion and doctrine. If that is what the word means, I have to be orthodox; if it means to be stupid and to stick to old things, I am not orthodox. I am always looking for something new. Therefore, I have come to this committee to meet our friends from western Canada who are the preachers of this new doctrine with regard to money especially, and with a thought or a hope, perhaps, the truth could be arrived at. Perhaps, we are a little too set in our ways and, perhaps, they are a little too radical. I have found that most of the discussion coming from members who are preaching monetary reform rather circles around getting money free—debt free money or something like that. One member even went so far as to say it was unchristian to charge interest on money. I do not know where one would find out whether it is christian or not except through the philosophy of that book which teaches that doctrine, and I find in Matthew, chap. 25, verse 14 in connection with the parable of the talents the following: "For the kingdom of heaven is as a man travelling into a far country, who called his own servants, and delivered unto them his goods."

And then in verse 27 in dealing with the servant who buried his talents in the earth, I find the following:—

> Thou oughtest therefore to have put my money to the exchangers, and then at my coming I should have received mine own with usury.

Now, that word "usury" is a word we do not like at the present time; but it occurs to me that "usury" in those days simply meant interest.

The CHAIRMAN: It does now.

Mr. KINLEY: However, I found in Webster's dictionary in the library that "usury" is defined as an unconscionable or exorbitant rate or amount of interest; interest in excess of the legal rate; charges to the borrower for the use of money. In so far as usury means that I am against usury, and in the constituency I represent our people are so sound in mind that they abhor a high rate of interest. They are always looking for a low rate of interest, of wages of money; and you will find no people more anxious to reduce the wages of money because of that very stability, than the people I represent.

My friends say that the banks in this country have in some way treated money as a mystery about which the people knew very little. Well, it is true that the average man—I do not say this in any uncomplimentary way, because we have learned a lot since we have come here with regard to money matters, and I think this committee has been splendid—but I find that in the schools in Nova Scotia in grades 11 and 12 in books on civics and economics that banking is thoroughly explained in a most simple and good way, and that the young people in this country are getting a splendid idea of the way the banking system in this country works. I find—and I do not say this in any uncomplimentary way—that the men who preach the doctrine of radicalism with regard to money are not those with practical experience but are rather those men who think in the abstract, men who express theories; but as a practical business man I have

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found that when our directors sit around the table and try to design some new product, or when one of our workmen comes in with a new idea, or we say that it sounds good, let us see how it works out, we may spend some money for the purpose of improving our product or having a new one, but in many cases we find that it does not work out at all. Practical experience, to my mind, is the thing that tells the tale, and while our theories may sound good and while they may be plausible, practical life is altogether different. In this regard, I have listened to our friends of the Social Credit party, and I can say that nobody can listen to them without being impressed with the earnestness and the moderation with which they express their thoughts here; but I am shy of it, in the first place, because I think monetary policy should be uniform throughout the whole country. If there is one thing that should be uniform it is the monetary policy. The same yardstick which applies in Nova Scotia should apply in British Columbia; and I think that under the British North America Act we can very well say that it is a wise part of the Act where it says that banking and commerce should be a matter of concern for the whole nation and under the control of the federal parliament. I do remember some practical things that have been brought forward in connection with the social credit theory, and apart from the social credit theory from what Mr. McGeer has said. His is not so much an attack on the banking system of this country as it is a feeling that we could flirt with it more and do things with it that perhaps might do the country some good. On the other hand, the social credit people do bring forward a theory, that is difficult to understand. I think it is a suggestion that we could monetize each year the production of the country and in that way carry on in a much easier way than we do to-day.

I have not found many business men, men who have dealt with finance and men who have dealt with manufacturing in this country who think there is any easy way to succeed. I am still old fashioned enough to think that the way to succeed is to work and save; a degree of individualism—and there is a great deal of rugged individualism in Canada—and the way for the individual to succeed is to work and save.

Then I do recall that in the election propaganda or promises of the Social Credit party at its inception they were promised \$20 a month dividend to every citizen of the province. It is possible to give \$20 a month dividend to every citizen of the province; there is nothing fundamentally wrong with it if you tax the people; if you make the people who earn over \$20 a month pay the bill you can give everybody in the country \$20 a month, but somebody will have to pay the bill.

With regard to debt free money, I have here one of those prosperity certificates which was an adventure in the field of currency, as I remember. It was the one that we in the east took notice of, and which rather attracted our attention. So, it is an adventure in currency, and I have here one of those bills. It is headed "The Government of the Province of Alberta"; underneath "Prosperity Certificate" and then follows "Date of Issue" "August 5, 1936." Then follow the words:—

> The provincial treasurer will pay to the bearer the sum of one dollar on the expiration of two years from date of issue hereof upon presentation hereof provided there are then attached to the backs hereof one hundred and four one cent certificate stamps.

Now, there is nothing fundamentally wrong with that if you give it to the people. I do not think there is anything wrong with it because they would be paying interest on the money and paying the principal back in two years. But you do not give it to them. This was offered to the people for services. In the first place, the man had to work for the money, and after he gave a day's work he might be given this currency. It is not debt free money, because the

longer you keep it the more it costs you. On the back of it is ruled out certain spaces for each week. In each week you must put a stamp in the block. In this certificate I hold in my hand just two 1 cent stamps appear. This certificate was issued August 5, 1936. In order to get clear of it it would cost me $1.02, and now I would receive $1 for it. To my mind that is loaning money at a very high rate of interest. You talk about free interest and Christian interest. That is 50 per cent a year interest on the money.

Mr. LANDERYOU: No; I must object to that. It is not that interest. The rate of interest is 2 per cent a year. How many stamps are there on it?

Mr. KINLEY: A hundred and four in two years.

Mr. LANDERYOU: My friend does not comprehend the facts that relate to the issue of that certificate. From the statement that he is making it seems to me that he does not comprehend it. If it would be in order, I should like to correct that statement.

Mr. KINLEY: Go ahead.

Mr. LANDERYOU: There are 52 spaces on the back, are there not?

Mr. KINLEY: 104 one cent certificate stamps.

Mr. LANDERYOU: On Wednesday each week a 1 cent stamp is affixed to one of these spaces on the back of the certificate.

Mr. KINLEY: Yes.

Mr. LANDERYOU: At the end of the year there would be 52 stamps there. When it is completed there would be 52 stamps on it.

Mr. KINLEY: 104.

Mr. LANDERYOU: $1.04, yes, that is correct. The man who has it filled with stamps goes to the government and recovers a dollar for the bill, and the government is not paying 50 per cent interest on the bill at all.

Mr. KINLEY: The government is not paying anything.

Mr. LANDERYOU: The government has to redeem that bill and give $1 for the $1.04 they receive.

Mr. COLDWELL: After $1.04 worth of stamps have been put on it.

Mr. LANDERYOU: Let me give a simple illustration. If the government was to spend $1,000 for a stretch of highway they would have either to tax the people to secure the $1,000 to start with or they would have to go to the banks or to private individuals and borrow the $1,000 by the sale of securities, and they would use that $1.000 to pave the highway. The highway would cost the people $1,000 either in the form of taxes in the first place or taxes in the future to redeem the bonds upon which the highway was financed. Now in this case the government took 1,000 pieces of paper that were called prosperity certificates, and it was issued to those who built the highway. It is just the same. The $1,000 could have been borrowed by taxes from the people. Instead of doing that they simply issued $1,000 worth of prosperity certificates, pieces of paper, to the people. The last person who held the certificates, after the stamps were all affixed, would want $1 each for them. The government had to secure, through this tax system of 1 cent a week, $1.04, so that when the $1 prosperity certificate was up for redemption the government would have a dollar to pay the holder, but they had received $1.04. Thus $1 would be given to the man who held the prosperity certificate when all of the stamps were attached. All the government retains is the 4 cents to pay for the cost of printing the money. It was cheaper in the final analysis for the government to finance its public works in that way than to borrow from the banks or other people. Then, there is another feature.

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My friend said this is "hot money." It was designed to increase the velocity of circulation. People spent that money and business was improved to that extent. There is nothing remarkable about it. Nobody lost anything by it, and it was a cheap method of financing.

Mr. COLDWELL: It is a tax of 1 cent a week on a dollar.

Mr. KINLEY: Perhaps I can explain it better if I compare it with a Royal Bank of Canada bill which I happen to have here. Now, a man in Nova Scotia works a day—

The CHAIRMAN: Or Alberta.

Mr. KINLEY: Or Alberta, and he gets a bill. When he gets that bill at night—

Mr. JAQUES: Somebody borrows it at 5 or 8 per cent interest.

Mr. KINLEY: When he gets that bill at night he gets debt-free money.

Mr. JAQUES: Somebody borrows it.

Mr. KINLEY: But, more than that, he can put it in the bank at the end of the year and get $1\frac{1}{2}$ per cent interest. At the end of the year he will have his $5 which was issued by the Royal Bank and $1\frac{1}{2}$ per cent on the $5 that the bank pays.

Mr. JAQUES: Somebody somewhere has had to pay 5 per cent or 8 per cent interest or—

The CHAIRMAN: Let Mr. Kinley finish. Please Mr. Jaques, let Mr. Kinley finish his statement. Everybody is going to have an opportunity.

Mr. KINLEY: This is a promise to pay by a bank of this country and the other is a promise to pay signed by Mr. Aberhart, premier of Alberta. Mr. Aberhart's promise to pay says at the end of two years if you paid $1.04 on the back of this promise, I will redeem it, but mind you, you must work for it before you get it. The other bill says, at the end of your work you will get this bill, and if you put it in the bank I will give you $1\frac{1}{4}$ per cent interest besides.

Mr. LANDERYOU: $1\frac{1}{2}$ per cent.

Mr. KINLEY: Thanks, $1\frac{1}{2}$.

The CHAIRMAN: It is 1 o'clock, gentlemen.

Mr. KINLEY: This is the one effort of the Social Credit that I know about in the field of currency, and it is so far away from what you theorize on that—

The CHAIRMAN: Mr. Jaques wishes to make a statement.

Mr. JAQUES: In the first place, those prosperity certificates are not and and were never intended to be anything like social credit.

Mr. CLEAVER: Were they issued by social crediters?

Mr. JAQUES: The idea was Gessel's, the German economist, who has the idea which is held by our own Minister of Finance that it is the velocity of circulation which increases the prosperity of the country; that there are two benefits, the first is that the money is redeemed by putting stamps on, and the second that it does increase the velocity of the circulation.

Mr. CLEAVER: I take it that Gessel's theory has been exploded.

Mr. JAQUES: It is not social credit.

The CHAIRMAN: Order, please, gentlemen.

Mr. JAQUES: But, Mr. Kinley, it is not a fair comparison to take a bank bill and say that there is a bill which a man can put in the bank and that he has it for nothing. That money never came from a bank; no money ever did, except at interest, and when you pay that loan back you pay not only the dollar but five cents as well.

Mr. KINLEY: Mr. Chairman, would it be possible to have a photostatic copy made of this prosperity certificate and incorporate it in the record?

The CHAIRMAN: Yes. We shall adjourn until 4 o'clock this afternoon.


1 ONE ONE 1

THE GOVERNMENT OF THE PROVINCE OF ALBERTA

PROSPERITY CERTIFICATE

DATE OF ISSUE
AUGUST 5, 1936

A 150619

THE PROVINCIAL TREASURER WILL PAY TO THE BEARER THE SUM OF ONE DOLLAR ON THE EXPIRATION OF TWO YEARS FROM DATE OF ISSUE HEREOF UPON PRESENTATION HEREOF PROVIDED THERE ARE THEN ATTACHED TO THE BACK HEREOF ONE HUNDRED AND FOUR ONE CENT CERTIFICATE STAMPS

ONE 1 ONE

GOVERNMENT OF THE PROVINCE OF ALBERTA OF CANADA

OFFICE OF THE PROVINCIAL TREASURER

J. T. Percival
Deputy Provincial Treasurer

ONE DOLLAR

William Aberhart, PREMIER *C. Cockroft,* PROVINCIAL TREASURER

1 ONE ONE 1

Alberta 1 CENT	Alberta 1 CENT	Aug. 26, 1936	Sept. 2, 1936	Sept. 9, 1936	Sept. 16, 1936	Sept. 23, 1936	Sept. 30, 1936	Oct. 7, 1936	Oct. 14, 1936	Oct. 21, 1936	Oct. 28, 1936	Nov. 4, 1936	Nov. 12, 1936	Nov. 18, 1936
Nov. 25, 1936	Dec. 2, 1936	Dec. 9, 1936	Dec. 16, 1936	Dec. 23, 1936	Dec. 30, 1936	Jan. 6, 1937	Jan. 13, 1937	Jan. 20, 1937	Jan. 27, 1937	Feb. 3, 1937	Feb. 10, 1937	Feb. 17, 1937	Feb. 24, 1937	Mar. 3, 1937
Mar. 10, 1937	Mar. 17, 1937	Mar. 24, 1937	Mar. 31, 1937	April 7, 1937	April 14, 1937	April 21, 1937	April 28, 1937	May 5, 1937	May 12, 1937	May 19, 1937	May 26, 1937	June 2, 1937	June 9, 1937	June 16, 1937
June 23, 1937	June 30, 1937	July 7, 1937	July 14, 1937	July 21, 1937	July 28, 1937	Aug. 4, 1937	Aug. 11, 1937	Aug. 18, 1937	Aug. 25, 1937	Sept. 1, 1937	Sept. 8, 1937	Sept. 15, 1937	Sept. 22, 1937	Sept. 29, 1937
Oct. 6, 1937	Oct. 13, 1937	Oct. 20, 1937	Oct. 27, 1937	Nov. 3, 1937	Nov. 10, 1937	Nov. 17, 1937	Nov. 24, 1937	Dec. 1, 1937	Dec. 8, 1937	Dec. 15, 1937	Dec. 22, 1937	Dec. 29, 1937	Jan. 5, 1938	Jan. 12, 1938
Jan. 19, 1938	Jan. 26, 1938	Feb. 2, 1938	Feb. 9, 1938	Feb. 16, 1938	Feb. 23, 1938	Mar. 2, 1938	Mar. 9, 1938	Mar. 16, 1938	Mar. 23, 1938	Mar. 30, 1938	April 6, 1938	April 13, 1938	April 20, 1938	April 27, 1938
May 4, 1938	May 11, 1938	May 18, 1938	May 25, 1938	June 1, 1938	June 8, 1938	June 15, 1938	June 22, 1938	June 29, 1938	July 6, 1938	July 13, 1938	July 20, 1938	July 27, 1938	Aug. 3, 1938	

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AFTERNOON SESSION

The Committee resumed at 4.00 P.M.

In attendance: Mr. GRAHAM FORD TOWERS, Governor of the Bank of Canada.

The CHAIRMAN: Proceed, Mr. Kinley.

Mr. KINLEY: Mr. Chairman, before we adjourned I was talking of theory as opposed to practice and the value of the theory was how it worked out in practical experience. In this committee we have heard a lot about theory, and especially from those who have advanced views on banking and monetary matters. It is rather an involved theory. As one who has had to do with practical things all my life—that is in dealing with the substance and the finding of money at the end of the fortnight to pay the payroll and struggling along so as to be able to satisfy people who have demands on your business—I have had an experience which makes me think there is no easy way in this life to succeed.

Now, I was dealing with the theory of our social credit friends, and I said that while their theory was largely proclaimed in Canada and here in this committee by men who are in earnest and men who put forward with moderation their views, as practical people I think we should look upon the things they have actually done, if they have achieved anything—we should look upon those achievements and judge them. I produced this prosperity certificate. In dealing with it I think we should strip the argument of all the drapery and get down to the facts, because this is rather a habeas corpus; shall I say, it is producing the body. As in a coroner's inquest, there is the body, now let us examine the body. And this is a prosperity certificate.

Hon. Mr. STEVENS: You are not suggesting it is a corpse, are you?

Mr. KINLEY: Well, it is the body anyway; it is the evidence; it is concrete, definite. This prosperity certificate, as I take it, was isued by the government of Alberta because it is signed by William Aberhart, premier, and by the provincial treasure; and it says: "The provincial treasurer will pay to the bearer the sum of one dollar on the expiration of two years from date of issue hereof upon presentation hereof provided there are then attached to the back hereof one hundred and four 1 cent certificate stamps." Now, that is issued for services rendered. I understood they were paying their school teachers and civil servants with them.

Mr. LANDERYOU: No; mostly for road work.

Mr. KINLEY: A man would do a day's labour and get that certificate.

Mr. LANDERYOU: And then it went into general circulation.

Mr. KINLEY: He wanted to put it into general circulation, and he had to work for it in the first place, and he got it for services rendered.

Mr. LANDERYOU: Yes.

Mr. KINLEY: In the first place, if he put it away and saved it for two years it would be no good to him, because he would have to pay $1.04 on it before he could have it redeemed.

Mr. LANDERYOU: It would be no good to him.

Mr. KINLEY: If he spends it and it gets into general circulation the people who have worked must pay the government $1.04 in stamps for the redemption of that $1 certificate at the end of two years. It is really issuing money—

not interest bearing money that will bring interest to you, but money on which you must pay interest; a cent a week, and it goes up the longer you hold it. Now, I would like to get down to a definite example. Suppose I am workman in the province of Alberta—and Mr. Landeryou says I am working on the road—and suppose that at night the foreman comes to me and he says: "I have two kinds of money. Here is a bank bill, a Dominion government bill, a Royal Bank bill"—I had a $5 bill this morning but I spent it since—I cannot find it—

Mr. JAQUES: Perhaps somebody borrowed it.

Mr. KINLEY: I hope he pays the interest on it.

Mr. JAQUES: He certainly will.

Mr. KINLEY: Suppose I am a workman in the province of Alberta, and the foreman comes and he says: "Here are two kinds of money; here is a prosperity certificate on which you must pay a cent a week in order to keep it good, and here is a bank bill which I will give to you and which is debt free and on which, if you loan it to your friends, you are entitled to ask interest for the loan, and if you give it to him for two years he will pay you 5 per cent a year, and in two years you will get 10 per cent on that bill, whereas in regard to the other bill in two years it will be worth nothing." That is the position. I am not complaining of this. If the Social Credit party had adopted this idea: for instance, we will give this to the people, hand it out to the people, $20 a month, and say to the people, "now, this is an advance to you, we give you this as an advance, and every week it is going to cost you a cent, and at the end of two years it will cost you $1.04," there would have been more virtue in it. However, the man has to work for it. It is hot money. And this is the first adventure in the field of monetary circulation.

Mr. LANDERYOU: Are you familiar with the fact that it was the unemployed people who were put to work with that?

Mr. KINLEY: Hold on now. Just a moment. This is your first adventure in the monetary field. Now, I hear what you people say about money without interest, debt free money, and I find that your first practical action is this, and I say that I cannot bring them together or make them harmonize.

Mr. LANDERYOU: Was not that debt free money?

Mr. KINLEY: This achievement or this activity or this attempt to circulate money, and the theory that you are preaching before this committee does not jibe, it does not make sense. I remember once when we were discussing banks in the house that, I think it was Mr. Jaques, was speaking of that rather attractive game called poker, and he said that if you played poker long enough the banker would get all the money.

Mr. JAQUES: I do not think that is right.

Mr. KINLEY: I think that is what you said. If you look at Hansard of a former year you will find it; you said that if you played poker long enough the banker would get all the money. Was that not what you said? I think that is what you said. Now that is not true. I have played some poker in my youth and I have found it a very attractive game, but when you start to play poker you sit around a table and you choose one of the most worthy and methodical of your party and ask him to be banker, and the banker performs a service.

Mr. JAQUES: He is not paid in that case.

Mr. HOWARD: At least he has some interest.

Mr. JAQUES: Unless he took his percentage out of the pot.

Mr. KINLEY: I want to get down to things that people will understand. These involved arguments about finance people do not understand, but many do understand poker.

[Mr. Graham Ford Towers.]

Mr. LANDERYOU: There are not many understand it.

Mr. KINLEY: Now, Mr. Jaques made that statement—I remember I took it down—that if you played poker long enough the banker would get all the money. My experience is that the kitty gets all the money if you play poker long enough, and the kitty represents entertainment and the extravagance of the players, because they take money out of the pot and they bring in refreshments and they pay for the room and all that sort of thing, whereas the banker performs a splendid service and he is the most reliable person in the party. He must make good at the end of the game every chip that is in the hands of the players.

Hon. Mr. STEVENS: Would you use an illustration we can all understand?

Mr. KINLEY: I will use one we can all understand. Mr. Jaques, I think, spoke of debt free money. Debt free money reminds me of the man who keeps a country store. I want to say that some day someone should put up a monument in this country to the country store keeper. He is fast fading away, but he was the man in the farming community who was equipped to take and who did take for a generation or more the products of the farmer and market them, and by barter and exchange he did perform a great service in the rural parts. The rural storekeeper did something that I think was of great value, and whatever may be said about the efficiency of these co-operative stores communities, if they combat the chain store and create a local patriotism that will bring back into the communities or keep in the communities the business of that community, they will perform a service.

The CHAIRMAN: Mr. Kinley, we must not wander too far afield.

Mr. KINLEY: I was going to give the story. We hear talk of debt free money, and it reminds me of the man who keeps the country store. There are people who think that because the government owns a bank they can go to that bank and get all the money they want and that there is no reason why there should not be an ample supply. Let us suppose that this man in the country store has an extravagant wife and family who say that because papa owns the store they can go into the store and take everything they want, and let us suppose that they go there and carry away goods, and they dress themselves up, and they take everything they want. Usually after a time the sheriff steps in and takes charge. And they do not know what is happening, when the trouble is that they invaded their trust. While the father did own the store, his goods had value, and the storekeeper needed them as he must meet his obligations, and his family were invading the very thing which was his asset in order to carry on his business.

Mr. JAQUES: They are giving no service in return.

Mr. KINLEY: I do not see what that has to do with it. Returning to this prosperity certificate, so called, I suppose the Social Credit party accept this as part of their activities; they do not disown it.

Mr. LANDERYOU: No, that took place, and it worked satisfactorily in the province of Alberta and fulfilled its purpose.

Mr. HOWARD: Do you think it would be a good thing to pay the indemnities of these fellows in the house?

Mr. LANDERYOU: Yes, they would spend the money instead of saving it up for their old age. We have opened up treasury branches now and we are using a different medium of exchange.

Hon. Mr. STEVENS: I think it is fair to say that it has been definitely used.

Mr. LANDERYOU: Yes.

Mr. KINLEY: It is like this: if I earn that dollar to-day in Alberta I have to earn another good dollar and put stamps on the first dollar to redeem it. I have to earn two dollars to get one.

Mr. LANDERYOU: Oh, no.

Mr. KINLEY: And, furthermore, if I keep that dollar for a year I have to put 52 cents in stamps on it and, therefore, it is 52 per cent money. We hear talk about usury and 3 per cent and 4 per cent, but this is something like 52 per cent. Therefore, I say that theory and practice do not work together in this—they do not always work out. That is, there are so many theories that are exploded in the realm of practical endeavour. I have never been taught that something could be got for nothing; unless somebody had to pay.

Mr. JAQUES: You can get nothing for something.

Mr. KINLEY: Well, sometimes. Somebody has to pay.

Mr. JAQUES: Of course.

Mr. KINLEY: I do not believe that dilution gives strength. There may be times when inflation—that is dilution is advisable for purposes—I do think, perhaps, it creates some redistribution of wealth as between the classes—but I never knew that by diluting anything you could get strength. For instance, let us suppose that the chairman said: Let us have a drink of whiskey. Some men do have a drink of whiskey.

Hon. Mr. STEVENS: Let us talk of something that we know of.

Mr. KINLEY: You say: That is not enough, we will want more than that; and he says, bring in the water pitcher and fill it up. Now, he has a bigger drink but no more whiskey. The same example would hold true in connection with the farmer and his milk. If the farmer waters his milk he has more substance but he has no more milk.

Mr. LANDERYOU: He has more bulk.

Mr. KINLEY: Yes, but he has no more milk, and it is a criminal thing for him to do. If he does that he can be put in jail. However, one will water the money and the other will water the milk, and I cannot see that there is much difference.

Mr. LANDERYOU: How about deflation?

Mr. KINLEY: In the east there is a rugged individualism in my county—

Mr. LANDERYOU: Is there any ragged individualism down there?

Mr. KINLEY: Perhaps.

Mr. JAQUES: Suppose the milkman restricts his production when he raises prices, that is the same as restricting money when you raise interest rates. That is done every day. That is what they call sound money. It is kept scarce to keep up interest rates.

Mr. KINLEY: Well, we will come to that in a little while.

The CHAIRMAN: Mr. Jaques, may I suggest that Mr. Kinley did not interrupt you very much.

Mr. KINLEY: Oh, no, I do not mind.

The CHAIRMAN: I think we should proceed as rapidly as possible, because there are several others who want to follow Mr. Kinley.

Mr. LANDERYOU: Are we going to have an opportunity to answer the statements made by Mr. Kinley, because I do not accept the statements that are being put on the record?

The CHAIRMAN: There are two or three others on our list.

Mr. LANDERYOU: We are supposed to have a reference before this committee, and Mr. Kinley has wandered away from the reference. I am not objecting to him doing so, he is entitled to express his views on some of the plans adopted in Alberta, but surely, in all fairness, we should have an opportunity to reply to some of these outrageous statements he has made—statements which I am sure Mr. Towers would not agree with, although he may not accept social credit.

[Mr. Graham Ford Towers.]

Mr. HOWARD: Mr. Kinley is inciting interruptions.

Mr. BAKER: I object to the word "outrageous." It may be outrageous to some people in some places, but not to other people in other places.

Mr. CLEAVER: And as far as Mr. Towers is concerned, the governor can speak for himself.

Mr. KINLEY: Speaking with regard to my C.C.F. friends who, I think, are perhaps approaching a doctrine of state socialism, I believe in the virtue of private initiative. I believe private initiative is the great driving force in industry, and that fair personal gain is a spur which is necessary for its success.

Mr. LANDERYOU: Hear, hear.

Mr. KINLEY: And at the same time, the acceptance by us all of those things which are necessarily of interest for the public good.

Banking, to most of the people of this country, has become a bit of a mystery largely because of the doctrines that have been preached and because of the ramifications and the complex features of the subject that come out as it gets bigger and bigger. I think it was Sir Montague Allen who once said when he was in New York that it had got to a stage where even he did not understand it; it had got into the realm of mystery. Therefore, if we are not quite sure, or if we are not speaking with the utmost assurance on matters of this kind, I think it is because we are beginning to learn something about it.

Now, we hear about getting something for nothing or making something from nothing. I remember when I went to school that there was a little bit of verse in our Royal reader which I think gave a good lesson in economics. It went something like this:—

John came from school the first half year
Learned as could be
And wished to show to all around
How smart a boy was he;
And so at dinner he began: "Papa, you think you see
Two roasted chickens on that dish,
Now I can prove them three.
First, this is one and that is two,
That's plain as plain can be,
I'll add the one unto the two
And two and one make three."
"Just so," answered his papa, "if what you say is true,
I'll take one and ma takes one
And the third we'll leave for you."

Now, lest my social credit friends are thinking I am one-sided in my ideas and that I favour those who consider themselves sound financiers in this country, let me say a word about corporation law—

Mr. LANDERYOU: Ridicule proves nothing.

Mr. KINLEY: Let me say a word about corporation law. I think corporation law is the vehicle upon which most business devilment rides. When limited liability legislation was first conceived in England it was considered a masterpiece of legislation. It followed the royal assent and the royal charter that went to companies who operated all over the world. We all remember the great south sea bubble that made such a mess of things. The directors of that company were stripped of everything but their clothes because public opinion in the country was so outraged.

I believe that corporation law has been a great element in progress, but it is a privilege. The limited liability corporation law is a privilege. There is such a thing as unlimited companies, then there is the private man who

takes the load and takes his responsibility, but the fellow who has the limited liability, he has a privilege. That privilege has been worked and exploited by the finest legal minds of this country and by the smartest financiers until I think it has now come to the stage where it is almost a menace to our economy.

I spoke about the people who want to inflate money, want to water money. I believe that the sound business man who comes into a firm and waters the stock of the company is just as bad as the one who wants to water the money. One is the creature of good times so long as the road is easy, but the minute the road gets hard and the times get harder—

Mr. JAQUES: Why do they get hard?

Mr. KINLEY: Just a minute now. The minute the road gets hard they find it difficult, and the first thing that happens is they meet difficulties, and in going down they aggravate the situation by pulling down other companies, and the first thing we know we are in a general depression. That is the creature of good times. That watering is done in good times when the money is plentiful. The business man who waters his money and waters his stock in good times is just as unsound as the theorist, the one who wants to water the money.

Mr. LANDERYOU: We do not want to water money.

Mr. KINLEY: If you form a company you create another person in law with privileges, and if you get some money and some friends you can create a second person in law. This second person can co-operate with the first person and with bonds and with the right of manipulation and some capital can form many companies. You can create a commercial dynasty; interlock directorates and create a business dictatorship, a commercial dictatorship in this country. I believe we have created commercial dictatorships in this country through the aid of corporation law. I believe in this country one of the things we need is more personal responsibility behind business. If I go to the bank and say should like to have $25,000, the bank manager would say, yes Mr. Kinley, you have a good company, we will give you $25,000 but you must put your name on the back of this note.

Mr. LANDERYOU: They will lend it to you.

Mr. KINLEY: They will say, put your company's name on the front and your name on the back. I say, yes, but I have a good company. The manager will say, yes but it is better to have faith in the man behind it. When the fellow who issues stock and bonds comes down to you with his prospectus he tells you if he can get prominent men to be directors—he will say, look at the men who are directors; look at the nice set-up, and he will sell you the bond. But they are not on the back of the note. If the company goes broke, you lose your money. The banks are more sensible in doing their business because they see when they lend you the money that you are responsible. It seems to me that while we have difficulties with our monetary system there are more evils in this country in so far as corporation law is concerned and in so far as commercial dictatorships are concerned, than anything else. What we need is decentralization.

The CHAIRMAN: Hear, hear.

Mr. KINLEY: What we need is decentralization of business in Canada so that every part of Canada will have a balanced economy. If you people in the west had in Winnipeg, Regina and Calgary a few of the manufacturing institutions you would not be so concerned about how tariff is ruining this country. We in the maritimes suffer from them too.

The CHAIRMAN: Winnipeg is the fourth industrial centre in Canada.

Mr. KINLEY: It is coming along; but we need decentralization.

Mr. JAQUES: I agree with that; we are 100 per cent behind that.

[Mr. Graham Ford Towers.]

Mr. KINLEY: In that regard I think you are sound. If we look at the map when we are talking about monetary reform we will find that all the reformers come from west of the great lakes. Surely, all the brains are not west of the great lakes?

Mr. JAQUES: The pioneer spirit is.

Mr. KINLEY: I know, but there is a reason for it. I will admit it took us hundreds of years in the east to build up our economy. In the west you built cities and provinces in 25 or 35 years, and you had a capital structure to look after your services and schools and everything that was an enormous charge on the economy of the country. You assumed such a load in a few years that when hard times came along you could not stand it; you got into difficulties and you did not know what was wrong with you. It was like what happened to us in Nova Scotia in the days of the passing of the wooden ships. We did not know what was wrong with us, when we did not have all the money that we commanded in other years, and we blamed it on confederation. We said confederation has ruined Nova Scotia.

Mr. LANDERYOU: You should have blamed the banks.

Mr. KINLEY: You people in the west blamed it on the banks and the monetary system.

Mr. JAQUES: The whole world is in that condition.

Mr. KINLEY: We are in a competitive world, and if you compare the world with our country, I think you will agree that we have the best country in the world.

The CHAIRMAN: Hear, hear.

Mr. KINLEY: Our banking system is something that we should be proud of, because during this depression no man lost his money, and furthermore—

Mr. JAQUES: At whose expense?

Mr. KINLEY: It has performed services in this country that in so far as the stability of this country is concerned is one of the things we speak about when we tell about the pre-eminence of our country. I do not think I shall say any more along these lines, but I just want to ask the governor a few questions.

By Mr. Kinley:

Q. Could there be such a thing as a fixed volume of banking credit?—A. A fixed volume?

Q. Yes.—A. No; I would say it should vary depending on the total volume of production of the country.

Q. Does it not depend on millions of individual transactions?—A. Yes.

Q. That is, it takes two people to make a loan?—A. Yes, that is right.

Q. For instance, there may be occasions when the banks want to loan money and the people say we do not want it, we cannot use it?—A. Yes.

Q. And at other times the banks say the hazard is too great?—A. Yes.

Q. Therefore it depends on millions of individual transactions. Now, Mr. McGeer said in *Hansard*, I noticed, something to the effect that the United States were inflating things much more than we are. That prompts me to ask this question: is the United States money backed by gold?—A. Yes.

Q. In fact, the United States is the only country to-day that is willing to pay its foreign obligations in gold?—A. It is the only one with the exception of Belgium that I remember at the moment which has a fixed price for gold in terms of its own money. Other countries are using gold as a means for international settlements, although not at a fixed price in terms of their own money.

Q. I think the United States has more gold than they have money in circulation to-day, have they not?—A. In so far as the actual note issue is con-

cerned, yes, much more, but speaking of it in terms of the gold reserve ratio of the federal reserve system the figure is—perhaps we can get it and file the figure in a moment.

Q. I think I have them here, but I wanted to justify it by your statement. Actually the amount of gold held by the United States is twice as much as the volume of currency outstanding and while the internal conversion of the gold was stopped in order to prevent hoarding the United States currency is, in fact, convertible into gold to meet foreign payments, and is the only currency in the world of which that is true. Do you subscribe to that?—A. I am sorry, I did not hear that. I see that on April 19 the ratio of reserves to the deposit and note liabilities of the federal reserve system was 84·9 per cent.

Q. Well, let me read this again. Actually the amount of gold held by the United States is twice as much as the volume of currency outstanding, and while the internal conversion into gold was stopped in order to prevent hoarding, the United States currency is, in fact, convertible into gold to meet foreign payments, and is the only currency in the world of which that is true?—A. Belgium also.

Q. Now, in June, 1933, or between June, 1933 and December, 1936, I am told that bank deposits increased in the United States by $4,000,000,000.—A. June, 1933 and December, 1936?

Q. June, 1933 and December, 1936, by $4,000,000,000 a year.—A. In December, 1933 the deposits in the United States were $38,500,000,000 approximately. In December, 1936 they were $53,700,000,000, an increase of $15,000,000,000 in that time.

Q. That is about $4,000,000,000 a year?—A. Yes.

Q. Now, in November, 1936 they changed their policy and they doubled the bank reserves and sterilized the gold, didn't they?—A. They doubled the minimum legal ratio at that time, approximately, which means that they sterilized, so to speak, that much cash in the form of necessary additional reserves which the banks had to carry. The so-called gold sterilization policy came, as I recall it, a little after that, an arrangement by which the treasury took in incoming gold and borrowed for that purpose, an arrangement practically the same as that which is followed in Great Britain. Since then that sterilization policy has very largely been abandoned.

Q. Why did they double their bank reserves?—A. They felt at that time, presumably, that signs of inflation were becoming visible. Whether that was right or wrong, it would be hard to say. No doubt they also felt that even on the doubled bank reserves there were enough spare reserves left to make it possible to undertake some further expansion if necessary, and not to make contraction necessary. That is the way I understand their reasoning.

Q. Do you not think that it is quite probable that this policy was the most important single factor in their recent depression?—A. There has been such a tremendous argument on that in the United States that I should like to avoid making any comments on their affairs.

Q. Now, the huge borrowings of the British government were referred to by Mr. McGeer. I think it is fair to say that he, in the house, in Hansard, and in this committee, led us to believe that the British government and the United States have been doing something that Canada has not done in order to make things better in so far as monetary policy is concerned. The British government has borrowed huge sums in order to balance their budget since 1930.—A. Well, I think the contrary is the case. It is in the United States and Canada that there have been large borrowings to cover governmental deficits, but in England, until the big rearmament program came along, they followed the reverse policy; that is, they balanced their budget.

Q. By taxation?—A. By taxation, and did not have the occasion to increase the national debt or borrow new money in any substantial amount.

Q. They attempted no methods except methods that are considered orthodox finance?—A. Their methods were, I will agree, more orthodox from that point of view than those that have been pursued in North America.

Q. If a bank is buying bonds—that is municipal and government bonds—is it not an indication that there is more money than the country can absorb in private enterprise?—A. That the demand, at least, for commercial bank loans, is not sufficient to take up the supply of funds which banks have available for loaning.

Q. Now, with regard to foreign exchange, our currency has been travelling between that of Great Britain and the United States for years, just a little higher than the English pound and a little lower than the American dollar?—A. In the 1920-22 period, or perhaps 1919 to 1922, it tended to do that. Again in the 1931-33 period it tended to do that. Those are the two periods when there has been a considerable difference in value as between the pound sterling and the United States dollar.

Q. What control has the central bank system over the rate of exchange?—A. It can only have control if it enters the market for the purpose of buying or selling exchange, and in the latter case, of course, the extent of its control would be limited by the amount of foreign exchange which it had available for sale.

Q. You could very soon force it down, but could you raise it?—A. That is the case where I would say control is limited by the amount of foreign exchange you have available for sale, or the amount of gold you have available for sale, because gold can produce foreign exchange. That type of control is what you might call the day to day influence which you might exercise on the market through actual transactions, adding to the demand if you were trying to do one thing, or increasing the supply of foreign exchange if you were trying to do the other. Over the long term period, of course, the domestic monetary policy and the effect that policy may have on the situation in the country, will affect the exchange value of the currency.

Q. I suppose that the lowering of the rate of exchange in your own country does help the primary producer who exports?—A. The effect on him, as you will remember, we have tried to deal with in earlier sections of the record, which pages I may be able to give a little later on. It is largely a question of internal transfer from which, for a period, the primary producer may benefit at the cost of other people in the country.

Q. Don't you think England captured, or recaptured, a great deal of her export trade by reason of the pound going to an extremely low figure?—A. If that was so, it would be very largely at the expense of her own people, of course.

Q. Yes, they would work cheaper?—A. Yes.

Q. I can see that. Now, on making trade agreements, governments to-day look out for that sort of thing. I notice that article 13 of our United States trade agreement reads as follows:—

> If a wide variation should occur in the rate of exchange between the currencies of Canada and the United States of America, and if the government of either country should consider the variation so substantial as to prejudice the industries or commerce of that country, it shall be free to propose negotiations for the modification of this agreement; and if agreement with respect thereto is not reached within thirty days following receipt of such proposal, the government making such proposal shall be free to terminate this agreement in its entirety on thirty days' written notice.

Therefore it is extremely important that you keep the rate of exchange somewhere within speaking distance of the American rate of exchange, because if you do not, this trade treaty is imperiled.—A. Without answering that question

directly I would say that in most international arrangements nowadays the thought that they may have to be changed if there is a material variation in the currency, is present; in other words, it becomes very difficult to steal a march on someone. You may not actually be stealing a march on that person, you may be doing something which is entirely a question of internal transfer, but your actions may affect the foreigner as well, and the foreigner nowadays, having had considerable practice, is not liable to be caught napping.

Q. Therefore exchange rates are almost as important as tariffs?—A. They are.

Q. And it is just as important to have stability—it is more important to have stability in monetary matters in foreign trade than practically anything else?—A. That is true; everybody will agree to that, I believe.

Q. While internally we may trifle with our monetary system, it is a more dangerous thing when it becomes international?—A. The internal trifling may in due course result in a change in the exchange value of the dollar. If the action taken is not an indirect one, but rather the direct procedure of buying and selling exchange, then, of course, your efforts are all the more obvious for other countries to see.

Q. Canada is a gold producing country?—A. Yes.

Q. A gold exporting country.—A. Yes.

Q. The gold standard is eminently important then to our people, the retention of the gold standard?—A. It is.

Q. And we should be boosters, almost, of the gold standard?—A. Yes, we should be boosters of the gold standard in some form.

The CHAIRMAN: The use of monetary gold; is that right?

Mr. TOWERS: Yes.

By the Chairman:

Q. The use of monetary gold, is that right?—A. Yes.

By Mr. Kinley:

Q. Is banking a monopoly in Canada?—A. No, I do not think you could say that. Having in mind the existence of ten banks I do not think it could be described as a monopoly. If you think of the question of other banks being able to start—as we know, the provisions for that are laid down in the Bank Act—I think it is most unlikely in the visible future that any other banks will get into operation in Canada.

By Mr. Deachman:

Q. Why?—A. I do not think the game is worth the candle for a new organization. I think that the long period of years during which they would have to suffer losses before they could hope to break even would discourage most people from trying to do it.

By Mr. Kinley:

Q. How many banks did you say there were in Canada?—A. Ten, including Barclay's Bank.

Q. Do you not think those ten are so organized that they could be constituted as a combine?—A. No, I would not say that.

Q. Is it not extraordinary that they all charge the same rate of interest?—A. I expect there are some variations.

Q. Well, of course, some.—A. However, I should say this. I have said this before and perhaps the committee will not mind if I repeat it: Above all things I do want to avoid creating any impression that one of the functions of the Bank of Canada is to defend or describe chartered bank policy. They should talk for themselves.

[Mr. Graham Ford Towers.]

Q. Much of our business in Canada is built up on the monopoly principle. For instance, tramways and hydro. There is a franchise involved and we control the rates. Do you not think that banking should be a monopoly publicly controlled?

The CHAIRMAN: Is that a matter of policy, Mr. Kinley?

Mr. TOWERS: That is a matter of policy. I am not quite sure what improvement you would get from that. If you go that far perhaps you really ought to take the responsibility for operation as well. There are certain general limitations in the Bank Act and the Interest Act. If you get down to too much rigidity in the limitations then you practically assume responsibility for operation.

By Mr. Kinley:

Q. To all practical purposes to-day are not the banks a monopoly, publicly controlled, whether they are controlled enough or not? The banks are controlled by the Bank Act, but there is a monopoly because of the difficulty of other people getting in. It takes a lot of money and they face competition, so for all practical purposes it might be useless to start a bank against the organizations we have to-day. The banks are controlled by the Bank Act.

Hon. Mr. STEVENS: A ten-year franchise.

By Mr. Kinley:

Q. Do you not think that should be reviewed more often?—A. I doubt it. I would say that so far as the public are concerned their main interest lies along these lines: If they want to borrow money are there at least enough banks so that they do not depend on the decision of one? Have they certain alternatives? Have they the element of competition for business in sufficient degree? Secondly, in regard to the various types of services which banks render, that is, the maintenance of checking accounts, the collection of accounts for businessmen, are there enough banks competing for that business so that individuals and business people can get good service or change over to another institution if they do not like the type of service they are getting? Lastly, within the limits imposed by parliament with respect to interest rates, is there sufficient competition so that those rates which are charged are not economically unfair to the country?

Q. Tell me, Mr. Towers, does the central bank in any way enter into competition or reduce the profits in a general way of the commercial banks?—A. The monetary policy of the last few years has undoubtedly greatly reduced the profits of the commercial banks.

Q. And accrued profits to you?—No, mainly to borrowers in the form of governments and others. No additional profits to us, because our profits, too, have been reduced by the lowering of interest rates. Speaking from memory I could say this: The average rate of interest which we earned on our investments during 1938 was such and such—I have forgotten the exact figure for the moment. In our first year of operation in 1935 it had been a higher figure. Now, if in 1938 we had earned on the investments we then held the same average rate of interest that we earned in 1935, our profits would have been \$2,000,000 higher in that one year. That is just an indication, a measure, of the tremendous effect which the easy-money policy has had on bank earnings and which has had to be reflected, of course, in very substantial reductions in the rate of interest paid on deposits.

By Mr. Cleaver:

Q. That saving has been a saving to the debtor class, has it not?—A. Yes.

By Mr. Kinley:

Q. Let us talk about the wages of money—interest. I am more interested in the wages of money than I am in any dislocation of the banking system, because we should be able to borrow money as cheaply as possible. How do the interest rates to the general public in Canada compare with the interest rates in Great Britain and the United States?—A. In Great Britain I would say that a rate of 4 per cent on overdrafts was a distinctly favourable one at the present time.

Q. It is usually 6 per cent in Canada?—A. And that 5 or something more would be not at all uncommon. In the United States it varies very greatly. If I may,—I do not think I will be able to find it immediately—I should like to put on the record a table which we will get from the Federal Reserve Bulletin showing rates in various sections of the United States. I think you will be surprised to find how high they are.

Q. In the United States?—A. Yes.

Q. That is, to organized business?—A. In the main centres, such as New York or Chicago, large corporations of absolutely undoubted standing can borrow at very low rates. If one takes a corporation such as the U.S. Steel, it might manage if it needed it, which it does not, to do some short-term borrowing at 2 per cent, perhaps. Those are the outstanding cases. But if you take the rank and file of individuals in small business across the country, you will find that the rates are very different indeed. In the quite small places I think you will probably find that the rates are higher than those in Canada.

Q. In good times bank interest rates naturally rise?—A. When there is a very keen demand for money and considerable expansion taking place, and so forth.

Q. Should it not be the opposite? For instance, in hard times treasury bills are low and government bonds are low and they must balance and earn high interest rates from the general public. In good times when the general public is taking all the money should not their rate of interest be lower?—A. I would not think so, because I would think that the competition which is going on for money at that time—

Q. That is the point; do the banks take advantage of the situation.—A. Under those circumstances you may find that in order to finance additional loans or speculative loans, perhaps, the banks are being forced to sell government securities that they have available. Not being able to cary that process on too far or too fast there is something more of a demand than they can readily fill. If they do charge higher rates at that time, it is a form of rationing. As a matter of fact, in Canada, even in the height of the boom, the interest rates did not get up very much. I think, as a matter of fact, that in so far as speculative loans were concerned at that time the rates did not go nearly high enough.

Q. It seems to me it is an indication of a monopoly when the rates go up in good times.—A. I would say it is an indication of demand exceeding supply.

Q. I think there is always a supply if there is a demand. You say that there is plenty of money at all times, and that there is always a supply if there is a demand.—A. That would depend upon the character of the business activity. If it was what you might call a satisfactory reasonable development which was not coming to the state of a boom then I would say under the existing monetary situation in this country the additional cash which the banks would require to cater to that need would be forthcoming. If, on the other hand, it was an unhealthy, heavy demand for money arising from boom conditions, two methods should presumably be employed to cut down that unhealthy demand. One might be the charging of somewhat higher interest rates; the other might be what you might call the qualitative method of trying to refuse the more undesirable type of advances. That last method is a very difficult one to follow.

[Mr. Graham Ford Towers.]

By the Chairman:

Q. A more risky one, you mean?—A. And a more difficult one to decide which to accept and which not to accept.

By Mr. Kinley:

Q. Do you not think that under the laws of our country the banks have too much protection in making them a preferred customer as against general industry?—A. In what respect, Mr. Kinley?

Q. Well, for instance, a man in business owes a merchant $5,000. The merchant does not take any action, the man just owes the bill and there is no court action. He goes to the bank and borrows another $5,000 and the bank will get security, book debts, or something or other, and when it comes to a showdown the bank is a preferred customer.—A. That would arise either through the assignment of security under section 88, or the assignment of book debts. I think one might argue that it is not a bad thing that the banks should be able to obtain that security. I think it is probable that they can finance business more liberally if they do get that security. A second argument is this: When they make loans their only return is the interest which they receive. Some people, of course, think they should not receive any at all. However that may be, their return lies in the interest; we will call it 6 per cent.

They are also in the position of being trustees in effect for their depositors. Now, a man or a company selling to another company which is borrowing from the bank is getting a somewhat higher return than six per cent. He has his gross earnings of that particular sale to encourage him to make it.

Q. I do not quite agree. I think the banks in this country are looked after pretty well. They have highly trained legal staffs, and any statute that can be made water-tight, most intelligent efforts I think are made to make it water-tight in the interests of the banks.—A. On that question of security I do think there is this feature: If a company is selling some merchandise to another company it, of course, is going to have its credit man check up and try to make sure, if it is giving say ninety days' credit, that the risk is all right. It knows, of course, that that company has given section 88 security or an assignment of book debts because there is provision for registration. But it decides to go ahead and make the sale. The sellers would say, "We think the risk is all right, and we are getting a gross margin of 20 per cent, or whatever it may be, in respect of the sale of these goods."

I would say that one commercial company selling to another had more foundation for taking that risk, more to gain. However, that is a question of argument. One final thing I should say is that from my experience—I have seen it in many cases—the trade may curtail the extension of credit to a company which is rather heavily indebted to the bank and which has given the type of security under discussion. This results, when trouble comes, in the bank carrying most of the load. If that argument is true to any extent, the banks would be better off by not having that particular security—assuming that the company concerned would finance more largely by credit from its suppliers.

Q. I think you established here in a general way, roughly speaking, that the expense of banks doing business was about 3 per cent.—A. That would be my guess as matters now stand. It used to be a good deal higher when interest rates were higher.

Q. Why would it be higher when interest rates were higher?—A. Because that guess which I made was about 2 per cent for general cost of operation and 1 per cent for interest on deposits.

Q. Three per cent is the bank's expense of doing business. There are very few businesses in this country that can carry on with less than 20 per cent overhead, that is, commercial businesses, retail especially. If a man can make 5 per cent net profit on his turnover he is doing pretty well to-day. If a bank

charges 6 per cent for money do you not think that in view of their expense of doing business that looks like undue profit?—A. Of course, the depositors expect, and the government of the country expects, the banks to have a portion of their assets in cash, a portion in government and other short-term liquid securities and only a portion in loans. The average rate of earnings on all bank assets is, I suppose, somewhere in the neighbourhood of $3\frac{1}{2}$ per cent. Whether the rate should be lower on that portion which consists of loans, or not, is a question of argument. It is a question, really, of an economic rate under which you can do business. Right now, if it were lower through the piece, then I think that savings deposit rates would also have to be lower.

Q. What per cent do you think the hazard in Canada adds to the use of money?—A. As I was saying the other day, if these were the piping times of peace and no terrific international disturbances had occurred or were expected to occur, and I would include in those disturbances the depression of 1930, as well as threats of war, then I suppose the amount which might be allowed year in and year out for losses on loans might be something of the order of half of one per cent. But certainly in the experience of the last twenty years it would have to be higher than that.

Q. I think this can be said as a fact: In the last ten years every business has had its ups and downs yet the financial institutions of this country have all made progress.—A. Well, I would not go so far as to say that. By the way, perhaps I should add that it is the case—and again I am only trying to state the facts of the matter and am not presenting a brief for anyone—Canada is an expensive country in which to conduct a banking business because of our geographical situation. If you can concentrate a tremendous amount of business under one roof your overhead charges per dollar of deposits will be less. That is the situation in respect to the very large banks in the United States and in England. But in Canada, with a chain of branches, many of them very small and scattered across the country, you will find, naturally, as any businessman would find, that your overhead per dollar of deposits is higher than in countries of more concentrated population.

I think that the existence of a large number of branches is a desirable thing from the point of view of serving the public. I would like to see them in as many communities as possible and to see as few communities without branch banks as possible. I personally think that the banks could, over a period of years, effect economies through reducing the number of branches in the cities. I would rather see that done than have further reductions imposed on the very small communities. I think it would not prejudice the public at all if they had to go a block farther in a city in order to reach a branch bank. It is much more of a difficulty if they have to drive 15 miles.

Mr. Kinley: Mr. Chairman, before I finish, I wish to thank the governor of the bank for his courtesy and the splendid way in which he has answered questions, especially those which I have been privileged to ask him. I desire to voice the opinion which others have expressed that this committee in conference with the governor of the Bank of Canada has given us a great deal of information which has been of great value. We Nova Scotians think we have something peculiarly our own when it comes to banking because, as I said, it was the birth place of many of the banks of this country. The president of the Royal Bank, the general manager of the Royal Bank and the general manager of the Bank of Commerce are all Nova Scotians and, naturally, we have some confidence in the banking system of this country.

The Chairman: Properly so. Thank you, Mr. Kinley. Now, gentlemen, Mr. Cleaver has the floor, by arrangement.

Mr. Jaques: May I ask a question, Mr. Chairman?

The Chairman: Mr. Cleaver, Mr. Jaques wants to ask a question.

Mr. Cleaver: Very well.

Mr. JAQUES: I will wait, Mr. Chairman.

The CHAIRMAN: Mr. Jaques, if the question arises out of something which Mr. Kinley brought out in his examination I think it would be as well to ask it now.

Mr. JAQUES: As a matter of fact, it arose out of something Mr. Towers said yesterday afternoon.

The CHAIRMAN: Then we shall allow Mr. Cleaver to proceed.

Mr. JAQUES: Yes.

By Mr. Deachman:

Q. Mr. Chairman, I have a question I should like to ask arising out of Mr. Kinley's examination. Are not the operating expenses of the banks too high, too much money invested in capital equipment, big buildings, for instance?—A. I think that in various cases, the banks would rather have smaller offices in various places throughout the country. To say that the buildings which they built were never in excess of their requirements, as those requirements have turned out to be, would be foolish, and I think the banks themselves recognize that. But they are there now.

Q. Perhaps there has lately been a change in that respect. In the old days they built rather expensive bank quarters in relatively small places.—A. Not only lately; I have seen a change now for nearly ten years.

Mr. ROSS: May I ask another question that arises out of this?

The CHAIRMAN: With Mr. Cleaver's permission, yes.

By Mr. Ross:

Q. You are talking about the number of branches that the banks have in Canada to-day. Have you any figures as to whether there has been an expansion or a contraction in the number of branches that we have all over the country?—A. Yes; we put that on the record a few meetings ago.

Q. It is there?—A. Yes. There has been a substantial reduction in the number of branches.

The CHAIRMAN: Mr. Cleaver, proceed.

By Mr. Cleaver:

Q. Mr. Chairman, I first have a few questions which I should like to ask the governor arising out of discussions that we have had and the questions that other members have asked. May I first ask this: I, Mr. Towers, am one of those who believe that our present system of taxation is outmoded and that a thorough revision of our system of taxation would be of great benefit to Canada. Mr. Deachman asked you a question the other day as to whether, in your opinion, a reduction of taxation would assist recovery, and I am reading a part of your answer from page 560 of the minutes of evidence of the committee.

> I would say that reducing taxes to promote recovery is not a plan which is likely to be widely effective in raising private spending and at the same time has disadvantages from the viewpoint of flexibility.

I would suggest to you, Mr. Towers, that the answer should be still further qualified, and that as to all types of industry where the rate of taxation is higher than the traffic will bear, a reduction in taxation would have a decidedly beneficial result with respect to those industries.—A. In such cases I can readily see that it would effect an improvement. It might, in that case, be a reduction of a certain repressive tax, accompanied by a change in some other form of taxation which would result in the government obtaining the same

revenue. I think that the question which was brought out and which I was trying to answer there related more to the desirability of a general reduction in the amount collected by the government.

Q. I understand the question to be directed to an isolated reduction with respect to places where, from an economic standpoint, there is weakness, rather than a general reduction.—A. I think I understood it as a general reduction.

Q. I take it you would agree where the reduction is suggested in respect to a part of our taxation where the taxes are too high and are more than the traffic would bear, that a reduction in taxation as to those industries would have a highly beneficial result?—A. I think the answer to that question is self-evident, of course—

Q. The answer would be "yes"?—A. The answer would be yes, unless, I suppose—

Q. It had a correspondingly detrimental effect with respect to some other? —A. I suppose that a government sometimes finds itself in the position where a tax falls very heavily on one particular company or perhaps even an industry, but where it finds a difficulty in remitting it in such cases without proceeding to do so all across the country. However, that is so much a governmental matter that I could not get into any specific case.

Q. I should like to take the time of the committee to demonstrate if I can by one concrete example to prove that Mr. Deachman's suggestion is a practical one and should be carried out. You agree, Mr. Towers, that land is taxed very much higher than any other type of wealth in Canada?—A. I do not know that it is, Mr. Cleaver.

Q. Would you indicate any other type of wealth that is taxed correspondingly highly in your opinion?—A. I should like to think about that.

Q. Very well. We will just leave that point. Now, in the session of 1938 the government made important reductions with reference to the taxation on the house-building industry. You are familiar with that?—A. You are referring now to the elimination of sales tax from a number of—

Q. I am referring in the first place to the elimination of the 8 per cent sales tax with respect to materials.—A. With respect to materials?

Q. In the house construction industry.—A. Yes.

Q. In the second place, the assumption of municipal taxes by way of dominion subsidy.—A. Yes.

Q. By which the dominion pays 100 per cent of the taxes the first year on a new home, 50 per cent the second year and 25 per cent the third year with respect to all homes costing $4,000 or less built for owner occupancy.—A. Yes.

Q. There is one other feature of the housing act, which is part 2 of the act, and which has to do with quite a heavy subsidy in low rental schemes. No one has taken advantage of that part of the act up to date, so I dismiss that from my computations in dealing with this point. Now, the figures are rather involved and in order that you may check them carefully, I will just hand you a copy of what I have here. As to any of these figures, if you question them, I will appreciate it if you will let me know.—A. May I say this, Mr. Cleaver, that I know you want to ask questions of the person best qualified to answer them. I know a man who is far better qualified to answer any questions relating to this particular subject than I am, and that is Dr. Clark.

Q. Dr. Clark has given his evidence and it did not occur to me to cross examine him on that point. I should like it if you would follow these computations, and if you do see any obvious error, interrupt me. You will notice on the heading of the statement, " house building figures in Canada for the first four months of this year as compared with the first four months of last year "?—A. Yes.

Q. The total for the first four months of 1938 was $11,734,880; the total for the first four months of 1939, after the tax exemptions to which I have

[Mr. Graham Ford Towers.]

referred, have been in force, was $18,204,200, or an increase in house building as a result of the tax exemption of a total of $6,469,400 during a period of four months.

Mr. HOWARD: You are not serious when you say that, I suppose?

Mr. CLEAVER: I am.

Mr. HOWARD: Do you think the total increase is due to the taking off of these taxes?

Mr. CLEAVER: I do.

Mr. HOWARD: I should like to tell you what I think.

Mr. LANDERYOU: Don't say it.

Mr. CLEAVER: I am quite willing, Mr. Chairman, that there should be any questions directed to me as I proceed with my questions, and if Mr. Howard would like to ask any now I am quite willing to answer them.

The CHAIRMAN: Go ahead, Mr. Howard.

Mr. HOWARD: It is hardly a question. Mr. Cleaver makes a statement of fact. There is no denying that the figures have gone up from $11,900,000 to $18,300,000. As to the reason for that, Mr. Cleaver states that it is due to the removal of the taxes. I entirely disagree with that statement.

Mr. CLEAVER: I state—

Mr. HOWARD: It may have been a contributing factor but it was not the whole story.

Mr. KINLEY: It could not possibly be the whole story.

Mr. CLEAVER: May I state that our Minister of Finance made a statement in the house when presenting his housing legislation, in which he stated this reduction in taxation with respect to the house building industry was made for the express purpose of stimulating the industry. I now come along and say that as a result of the tax exemptions and the municipal tax subsidy, the industry has been stimulated to the extent of $6,469,000.

Mr. KINLEY: May I ask a question? I suppose you take the ground that had it not been for this stimulation there would be no rise—there still would have been construction, but there would have been no rise in it?

Mr. CLEAVER: I take the ground, Mr. Kinley—

Mr. KINLEY: You do not claim all the construction in Canada was due to that?

Mr. CLEAVER: No, just simply the increase. I say we would have progressed along—

Mr. KINLEY: Increase over the average?

Mr. CLEAVER: Yes.

Mr. KINLEY: That is not too bad.

Mr. LANDERYOU: Was there any increase in the price of commodities required in building construction during that same period?

Mr. CLEAVER: Increase in building material?

Mr. LANDERYOU: The cost of building material.

Mr. CLEAVER: I would say there was a decrease in building material as a result of the removal of the 8 per cent sales tax.

Mr. LANDERYOU: It was reduced to that extent, but was there not an increase in the price of 1,000 feet of lumber as compared with the period before this sales tax was removed?

Mr. CLEAVER: I should not like to make a haphazard answer with regard to that without actually checking up the figures.

Mr. MACDONALD: My information is that is not so; there was not an increase.

Mr. LANDERYOU: My information is there was an increase in hardware.

Mr. CLEAVER: Well, coming to my next point—

Mr. HOWARD: Just a minute. Before you get off that—

Mr. ROSS: May I ask Mr. Cleaver if he has the figures for 1937?

Mr. CLEAVER: I am sorry, I have not the 1937 figures. I shall be glad to put them on the record, however. I did not want to clutter up the record with too many figures; but if you would like the 1937 figures, or any other figures for any other year, I have them available and I shall be glad to put them on the record.

Mr. KINLEY: Would you give all the credit to the reduction of the sales tax for this increase?

Mr. CLEAVER: No; I say as a result of the removal of the sales tax plus the municipal tax exemption.

Mr. KINLEY: That is fair.

By Mr. Cleaver:

Q. Coming to the next point, Mr. Towers, you are of course aware of the very extensive inquiry which was made into the construction trade in 1935, and that the wage content of building was at that time accurately determined?—A. I cannot speak from memory in regard to that. In fact, as I said before, I read these computations with a great deal of interest but I certainly do not feel qualified to make any comment.

Q. I will state here, Mr. Chairman, that that committee made a very extensive inquiry and their report was that a little better than 80 per cent of the total cost in our moderate priced house is labour, direct and indirect, not all spent when the house is built but indirect labour or labour employed in fabricating the different types of building materials down to the point where they can be used for constructing a house. I refer to labour employed in the manufacturing of bricks, lumber, door-frames, sashes, hardware, plaster, plumbing and the like.

Mr. MACDONALD: That may not all be Canadian labour.

Mr. CLEAVER: I did not say it was all Canadian labour, but I do say that a very, very large percentage of it is Canadian labour.

Mr. KINLEY: Surely.

Mr. CLEAVER: If you will follow through you will find very, very few bricks are imported into Canada; they are made here. No plumbing supplies are imported into Canada; they are made here. No plaster supplies are imported into Canada; they are made here. No lumber is imported into Canada, except a few instances in regard to trim—

Mr. MACDONALD: And hardware.

Mr. CLEAVER: No. You will find Yale and Belleville supply the large bulk of the hardware used in Canada, and that now is made in Canada. You will find that only an extremely small percentage of the materials which enter into a home in Canada are imported. If that 80 per cent figure is correct, Mr. Towers, that would mean that this increase of $6,409,000 in house building in Canada in the first four months of this year had a labour content of $5,175,000. Now, taking the average cost of maintaining a family on relief—and for that purpose I take a normal family of four, two adults and two children. I have obtained these figures from our own Department of Labour and they in turn have made up the figure through taking the average relief cost in all parts of Canada. It costs $480 a year to maintain a family of four on relief, $40 a month.

Mr. LANDERYOU: Well, now, I wish that the hon. member had used the figures that were placed on Hansard by the Minister of Labour. Last year the average was $6.43 per person for food, clothing and shelter.

Mr. CLEAVER: Per person per what?

Mr. LANDERYOU: Per month; $6.43 per month for food, clothing and shelter. That was the average paid from one end of Canada to the other. It varies in localities with respect to provinces, but the average across Canada was $6.43.

Mr. KINLEY: Much higher than in some parts of the United States.

Mr. CLEAVER: I to-day obtained these figures from the Department of Labour and for the purpose of my argument I ask you to take them as accurate. If the amount is lower, the figures will have to be correspondingly reduced. If these figures are correct, Mr. Towers, that means that 480/800ths of the labour content of these new homes would be a saving in relief expenditures, making a total saving of relief expenditures as a result of the increased house construction work in the first four months of this year of $3,105,312. Now, let us look at the other side of the ledger and see what that cost Canada. In the first place we have the 8 per cent removed. Here again I will have to rely on estimates, and I have an estimate supplied to me by Mr. J. Clark Reilly who is general secretary of the Canadian Construction Association, and he informs me that 37·5 per cent of the total cost of a house is materials on which the 8 per cent sales tax applied prior to its removal. In other words, on a house of $5,000 the sales tax content would be $150. Now, working that out on a percentage basis on the whole cost of the house, it would mean that 3 per cent of the total cost of the house was sales tax content, before the sales tax was removed. So that there would be no criticism of my figures, I have placed my estimates at 4 per cent, allowing a 25 per cent error in the estimate. That would mean that the sales tax content of the houses built in the first four months of 1938 would be $469,392. That is one item which we lost through having written off the sales tax.

The next item which we lost is the amount which we will have to pay under the municipal tax subsidy. The Minister of Finance estimated that for the year that we pay 100 per cent of the municipal tax subsidy it would cost Canada 25 mills on the cost of the house. The reason he fixes the cost at 25 mills is that in the first place the subsidy applies only with respect to the house and does not apply with respect to the land on which it is built. In the second place, municipal assessments are generally lower than the actual cost of the house. From what little municipal experience I have had I believe that figure is reasonably accurate.

Mr. KINLEY: In rural Nova Scotia it is about one-third.

Mr. CLEAVER: Then in rural Nova Scotia the 25 mills is high. That means that the municipal tax subsidy will cost Canada for the first year, 25 mills; for the second year $12\frac{1}{2}$ mills, and for the third year $6\frac{1}{4}$ mills—a total of $43\frac{3}{4}$ mills or 4·375 per cent.

There is one other feature which I should mention. This tax subsidy is restricted to houses costing $4,000 or less and is also restricted to houses built for owner occupation. Once again I am compelled to use an estimate. My estimate is that not over 50 per cent of the new houses built would fall within the qualifications required for the tax subsidy. If that estimate is correct the tax subsidy on the first four months of house building this year will cost Canada $398,216.

Now, to summarize, we have made a total saving in relief costs of $3,105,000, and that saving has cost Canada in tax exemptions only $867,000, or a net saving to Canada through reducing taxation, through taking off taxes, of $2,237,000.

Then there is this other feature. As a result of that we have taken 6,217 men off the relief rolls and put them to work.

Mr. LANDERYOU: Not necessarily off the relief rolls. They may not have been on relief.

Mr. CLEAVER: I think perhaps we are interested in stating facts rather than in hair-splitting. I say that in a kindly way, and I do say that we have put 6,217 idle men to work.

Mr. LANDERYOU: That is correct.

Mr. CLEAVER: Through a tax reduction to one little industry.

The CHAIRMAN: Is that for a season?

Mr. CLEAVER: For four months of this year.

Mr. KINLEY: I find in my province that in so far as public works helping relief is concerned, the contractor usually sees to it that he has men who usually are at work. He does not take relief men on account of their inefficiency unless he cannot avoid taking them.

Mr. CLEAVER: Do not misunderstand me. I have not given any figures with respect to government building. I believe very, very firmly that the answer to our unemployment problem is to put men back to employment in industry.

Mr. KINLEY: But all those men who were not employed before.

Mr. CLEAVER: I would say no. I would say it necessarily follows.

Mr. LANDERYOU: But I would not say that they were on relief. I agree with you. I would like to see more men back in industry, but what reason do you advance for the inability of industry to absorb the unemployed?

Mr. CLEAVER: Oh, there are many reasons. I think that industry is very much overtaxed. The sales tax, plus the corporation income tax, puts an unbearable load on industry.

Mr. DEACHMAN: You could take the sales tax rather as a tax upon consuming power and therefore reduce the consumption of consumer goods rather than anything else, not a tax upon industry?

Mr. CLEAVER: You can figure it from both directions and I think you will arrive at the same conclusion.

Mr. LANDERYOU: If we removed completely the taxes from industry do you believe that industry could employ more men?

Mr. CLEAVER: I will answer it in this way: the law of diminishing returns is always working, and you can tax any industry, any type of property, to the point where you are actually getting less taxes as a result of a high percentage.

Mr. LANDERYOU: I agree, but if we were to remove taxes completely from industry in Canada would we be able to employ more men?

Mr. CLEAVER: I would say yes. I am strongly in favour of taking taxes off industry and making it prosperous, raising your taxes through income tax. I have two reasons for that. In the first place, it will stimulate industry, it will make industry prosperous.

Mr. LANDERYOU: That is what we want to do.

Mr. CLEAVER: In the second place, I do not think we will ever get proper economy in governmental expenditures until we have direct taxation right across the whole field. I would go right down into the lower income brackets and impose a tax. My reason for that is obvious. You men, being members of parliament, know of the pressure brought on you by your constituents to spend governmental money. If you go into the municipal field, I refer to school boards, municipal councils, the whole pressure on them is to save money. Why? Because their constituents are being directly taxed for every dollar that is spent.

Mr. KINLEY: In my riding, if I put in a public works that is not justified it will do me more harm than anything I could do.

[Mr. Graham Ford Towers.]

Mr. CLEAVER: I can speak feelingly on that subject. Just prior to the 1935 election tenders were called for a new post office in my home town. Fortunately, the contract was not let. The morning after the election I wired the public works department asking that everything be held up, and I cut the cost of that post office in half, because we were building a post office very much more extravagant and very much larger than we needed. Everyone admitted in the town that the money was being wasted, but on arguing it out with different people who criticized me personally the answer was, "Well, why did you cut the expenditure in half? It does not cost us anything; the government is building it."

Mr. KINLEY: Field for education.

Mr. CLEAVER: I do not think we will get proper economy in public expenditure until the whole trend is reversed by the imposition of a direct tax. Not one tenth of our people are paying income tax. Not one tenth of our people realize it is costing them anything to run the dominion government.

By Mr. Cleaver:

Q. Now, coming to my next point, these first questions are very rambling because I am simply clearing up points raised by other members of the committee. You will recall, Mr. Towers, that Mr. McGeer, in cross-examining you with reference to the easy-money policy operations of the Bank of Canada whereby you increased bank deposits from $464,000,000 made this statement, "The banks received cash without borrowing from the Bank of Canada." I do not think that statement tells the whole story. My suggestion is that the banks received additional business from their customers as a result of this easy-money policy.—A. As you will remember, that question of the method by which the banks found themselves with additional cash reserves was perhaps put on the record in better form yesterday than on the earlier occasion. It is the case, however, that the increase in the cash reserves is the first step.

Q. Yes, that is quite true, but the very fact that you increased that reserve does not give the banks the power to increase it ten times without different individual customers intervening?—A. That is true. There might be circumstances under which it would be impossible for the banks to follow on with the policy of expansion as a result of the enlargement of the cash reserves, but, in fact, of course, they have been able to do so.

Q. To clarify that one point, if I may, we took as an illustration this morning the Bank of Canada entering the market and buying from a private individual a million dollars' worth of bonds, and we followed the different stages through whereby that was eventually increased to something like ten times that amount in bank deposits. Now, if the first customer, the man who sold the one million dollars' worth of bonds to the Bank of Canada took the million dollars and hoarded it and did not take it to a bank at all, could any expansion have taken place?—A. No.

Q. That same thing would apply all the way down the line. The first man who got some cash from selling his securities, and who hoarded that money, would cause the expansion immediately to stop.

Mr. LANDERYOU: What does that prove, that the banks must have a cash reserve of 10 per cent.

Mr. CLEAVER: It proves that this expansion takes place as a result of the action of the customers.

Mr. LANDERYOU: The action of the customers in placing their cash in the bank.

Mr. CLEAVER: Plus our banking practice.

Mr. KINLEY: Plus the generosity of the banks.

Mr. LANDERYOU: And plus the action of the government.

The CHAIRMAN: Order, gentlemen.

By Mr. Cleaver:

Q. I should like now to deal with another point raised by Mr. McGeer. He referred to the weapon of the rediscount rate being now of no effect, and I believe your reply to him in that regard was that it was outmoded?—A. Temporarily, in these conditions.

Q. Is it not a fact that the weapon of the rediscount rate only applies during a period in our economic life when the central bank deems it wise to curtail credits?—A. That is right.

Q. So that when we are in a period of expansion it is impossible to use that weapon, it is not necessary to use it?—A. It may come in, in a mild way, in a sort of half-way period.

Q. Another point which Mr. McGeer raised was this. He argued very strenuously the unlimited power of the Bank of Canada to issue currency. I am firmly convinced that while this additional currency could be issued we could not successfully maintain its value if issued in extraordinarily large quantities, and that even if we could issue it, and even if by legislation we could maintain its value, it would not solve our present problem of want midst plenty. Is there not one other feature? Do we not have to get that money into the hands of the general public?—A. And if we did do so in that quantity I do not see how you could possibly maintain its value.

Mr. LANDERYOU: What quantity are you talking about?

By Mr. Cleaver:

Q. There are only two ways of getting it into the hands of the general public of which I know. The first is to pay it in wages, either wages on money or wages on labour. The other is a direct gift. So that we would be driven then to the resort of a direct gift.

Mr. JAQUES: A national dividend.

By Mr. Cleaver:

Q. And when you start giving money away I just wonder how long anyone would seriously argue that it would have any value?

Mr. LANDERYOU: They are doing it in the United States and here in Canada. You give $17,000,000 to the unemployed, per year, just as the dominion's share. Then there are old age pensions.

Mr. JAQUES: Would you permit a question, Mr. Cleaver?

Mr. CLEAVER: Yes.

Mr. JAQUES: Instead of regarding the people as taxpayers, suppose we regard them as shareholders in Canada, Limited, a company known as Canada Limited.

Mr. CLEAVER: We have certain instances where we do that. In a municipal waterworks scheme or a gas scheme or an electric scheme, we have the public as shareholders and we reduce rates when profits are made.

Mr. JAQUES: If we regard Canada as one great big going concern and all the people in it shareholders, surely as shareholders they are entitled to dividends on the national profits.

Mr. CLEAVER: In answer to that I would say that no private concern declares profit dividends until the profits are made; they do not declare dividends on potential profits.

Mr. JAQUES: No dividends would be paid until the profits were made, but no one is going to say that if you took Canada since I have been here, anyway, there has been no progress. There has been progress.

Mr. CLEAVER: I perhaps should have made this further answer, that no company is allowed to declare profit dividends on the profits which some other company makes; they must declare them on their own profits.

[Mr. Graham Ford Towers.]

Mr. JAQUES: The point is that we regard consumption as, what shall I say, detrimental—

Mr. CLEAVER: You may; I do not.

Mr. JAQUES: We have got to cut down consumption.

Mr. CLEAVER: That may be your theory; it is not mine.

Mr. JAQUES: I am talking about the orthodox theory.

Mr. CLEAVER: I do not agree that that is the orthodox theory.

Mr. JAQUES: We have to save always. Now, as a matter of fact, without consumption there cannot be any production.

Mr. CLEAVER: Is this a question you are directing to me?

Mr. JAQUES: How shall any man find a profitable or a consumptive market for his goods? He is only too willing to supply that demand.

Mr. CLEAVER: Yes, and what I am interested in doing is trying to suggest certain changes which I believe should be made in our system of taxation and in our approach to this problem which will increase the consuming power of the general public.

Mr. JAQUES: Well, I will agree that there is much room for improvement.

Mr. CLEAVER: I wonder, Mr. Chairman, if I might be permitted to continue?

The CHAIRMAN: Yes, continue, Mr. Cleaver.

Mr. LANDERYOU: I just have one question I should like to ask.

Mr. CLEAVER: As long as it is not an argument.

Mr. LANDERYOU: You are familiar with the plan in the United States for distributing surplus agricultural commodities. I believe the plan is being pursued in Canada and that the Minister of Agriculture is taking care of the distribution of surplus butter in Canada?

Mr. CLEAVER: Yes.

Mr. LANDERYOU: Is that not the same as a dividend? The government is distributing butter and paying somebody for it.

Mr. CLEAVER: I am afraid, Mr. Landeryou, that would take a little longer time to answer than I would care to ask the committee to give me at this time. However, the point may be made clearer by my subsequent discussion; if it is not, I shall be glad to answer your question at the finish.

By Mr. Cleaver:

Q. Coming to another point which was raised in the committee by, I believe, Colonel Vien, he asked you what was the difference between government financing by borrowing money, by the issue of government securities and borrowing on the one hand, and by the printing of money and handing out the money on the other hand. He took $1,000 as an illustration. I should like to pursue that question down to the point where I will thoroughly understand the difference. As I understand it, if the government decides to do a thousand dollars' worth of financing by signing a Dominion of Canada bond and selling it to someone who has saved a thousand dollars, that would mean that a thousand dollars in savings is taken from some individual by the government and, in turn, is handed out by the government to some contractor who builds some public works?—A. Yes.

Q. And the sum total result is simply a transfer from one individual to another of this money which is already saved? There is no new money injected into the money stream?—A. No.

Q. Consequently no inflation takes place and no deflation takes place with perhaps one exception, and that is as the annual interest payments become due

on the government bond then the government must raise that interest money by taxation?—A. That is true. If the work for which the money has been used is of a productive character, direct or indirect, then the country as a whole would be better off and able—

Q. It is quite within the realm of possibility that the work itself might produce enough new wealth to pay the interest charges, in which event there would be no necessity for increased taxation?—A. That is right.

Q. Then coming to the other type of financing. If the government instead of issuing the bond prints a thousand dollars' worth of Bank of Canada bills and pays this money to the contractor then that money is new money entering the money stream of the country and under our business and banking practices, unless hoarded, that will eventually become increased ten times in credits?—A. Yes.

Q. So that the difference between these two means of financing government expenditure is that as to the latter means, expansion takes place, an inflationary measure takes place to the extent of ten times the amount involved; and, as to the other scheme of financing, there is no inflation?—A. That is right.

Q. Then coming to Mr. McGeer's next point in regard to the issue of what I might call, for the lack of a better word, "secondary currency," do you recall that this morning he suggested that for governmental work currency should be issued which would have very limited value as to money, that is, would have no value as bank reserve and could not be held by banks as other currency is held?—A. Yes.

Q. What in your opinion would happen to the value of that restricted currency when in circulation with other currency unrestricted in its value?—A. It would go to a discount. What level of discount, I could not say; it would depend to a great extent on the amount which was put out.

Q. I would suggest to you that the level of discount would at least equal the interest costs of orthodox borrowing?—A. I should say that it would at least equal that, yes.

Q. Could it by any possibility be less than that?—A. I do not see any reason why it should be.

Q. Then, coming to the next point, it has been suggested many times in this committee that the banks, our merchant banks, have hidden profits. I want to make myself clear that I hold no brief for the banks and I think the banks have been permitted to earn much larger profits than they require to earn; but I should like to have this theory of hidden profits either proved, Mr. Chairman, or disproved. I should like now to ask the governor as to what method he thinks would be the best method of clearing up that charge?

Mr. Jaques: What charge?

Mr. Cleaver: That the merchant banks of Canada have hidden reserves or hidden profits.

Mr. Jaques: It is accepted.

Mr. Towers: Any question of that kind, of course, Mr. Cleaver, I think would have to be dealt with by the committee, by the Minister of Finance or the government, I am a little uncertain which.

By Mr. Cleaver:

Q. I do not want to embarrass you at all, but I should like to know, because I have a motion I intend to move in this committee in that regard. Who, in our merchant banks, would know of hidden profits, if there were any hidden profits or hidden reserves?—A. Each bank would know its own business.

Q. What officer in the bank?—A. Well, I assume the general managers are always the ones who talk for their particular institutions.

Q. How long were you in the private banking business before you were appointed the governor of our central bank?—A. Fourteen years.

[Mr. Graham Ford Towers.]

Q. As a result of your fourteen years experience, have you the slightest suspicion that there are any hidden undisclosed reserves or profits?—A. To the extent that I am familiar with the operations of any bank but have now left its service and am where I am, I could not make any comment either in the form of yes or no to a question of that character, as you can understand.

The CHAIRMAN: I think your point is well taken, Mr. Cleaver. If you have hidden profits or hidden reserves, then you have a dishonest statement.

Mr. CLEAVER: Quite, and I think it is an extremely important matter, Mr. Chairman, that this charge of hidden profits should be either proved or disproved.

The CHAIRMAN: Yes.

Mr. DEACHMAN: It is admitted, Mr. Cleaver, because the banks in their annual reports some years ago put in something to this effect: we have transferred from our regular reserves to our inner reserves, which have been somewhat depleted, a sum of $3,000,000 or $4,000,000.

The CHAIRMAN: I do not think that is an admission of the point at issue.

Mr. DEACHMAN: They use the words "inner reserves" instead of "hidden."

Mr. CLEAVER: I mean undisclosed assets.

Mr. TOWERS: I think the real subject we are discussing is the reserves against possible or probable losses which are set up by the banks.

Mr. CLEAVER: No. I understood the charge was undisclosed assets.

Mr. TOWERS: Oh, well, then I do not know of those.

The CHAIRMAN: Because it they have shrunk them they can inflate them.

Mr. DEACHMAN: We have an inspector of banks, you know.

Mr. JAQUES: The people of Canada suffered enormous losses in the last ten years. I do not say you have; I do not say I have; but it is a fact, the losses have been enormous.

Mr. CLEAVER: I will freely admit it.

Mr. JAQUES: There have been losses; where have they gone?

Mr. CLEAVER: Where is what?

Mr. JAQUES: Who has got them?

Mr. DEACHMAN: Because somebody lost money it does not necessarily mean somebody else has got it.

Mr. JAQUES: It does not go into the air.

The CHAIRMAN: It is 6 o'clock; shall we meet to-morrow morning?

Mr. CLEAVER: 11 o'clock.

The CHAIRMAN: The governor wants the day off. We shall adjourn to the call of the chair.

The committee adjourned at 6 p.m. to meet again at the call of the chair.

Doc Canada Banking & Commerce Standing Ctte on 1939

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SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 21

TUESDAY, MAY 23, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

TUESDAY, May 23, 1939.

The Standing Committee on Banking and Commerce met at 11.15 a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Clark (*York-Sunbury*), Cleaver, Coldwell, Deachman, Donnelly, Dubuc, Fontaine, Jaques, Kinley, Lacroix (*Beauce*), Macdonald (*Brantford City*), Quelch, Stevens, Taylor (*Nanaimo*), Tucker.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Examination of Mr. Towers was continued.

The following statements were submitted by Mr. Towers in answer to questions by members of the Committee, and appear in this day's evidence, viz:—

1. Chartered Banks: Annual classification of loans in Canada.
2. Annual classification of loans and discounts in Canada: 1927-1933 estimated by Bank of Canada.
3. Exports of goods and services in relation to national income.
4. Canadian bonds: net new issues abroad or repatriations, 1927-1937.
5. Net exports of non-monetary gold.
6. Comparative statistics.
7. Average rate of interest earned on loans by member banks in first half of 1936 (United States).

At the request of Mr. Clark, it was ordered that the following correction be made in the record, viz:

In the last line of page 570, delete the words " destitute but were," making the last part of the sentence read "in families that were not on relief."

At 1 o'clock the committee adjourned until to-morrow, Wednesday, May 24, at 11.15 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

May 23, 1939.

The Standing Committee on Banking and Commerce met at 11.15 o'clock. The chairman, Mr. W. H. Moore, presided.

In Attendance: GRAHAM FORD TOWERS, Governor of the Bank of Canada.

The CHAIRMAN: Gentlemen, let us come to order. Mr. Cleaver has the floor this morning.

Mr. CLARK: Mr. Chairman, may I call your attention to an error on page 570 of our proceedings where the word "destitute" appears. I did not use that word, and it destroys the sense of my statement.

The CHAIRMAN: How should the statement read?

Mr. CLARK: It should read, "in families that were not on relief" instead of "that were destitute and not on relief." Destitute should not be there, and I am sure I did not use the word.

The CHAIRMAN: Mr. Cleaver, the governor wishes to make a statement before you proceed. Would you just give way for a moment?

Mr. CLEAVER: Yes, certainly.

Mr. TOWERS: Mr. Chairman, in the course of last Tuesday's meeting, page 632 of the evidence, I had occasion to mention a classification of the Canadian loans of the chartered banks which has been available for each year since 1934, and also some rough approximations relating to previous years which we had compiled for our own use. I shall now place these two tables on the record. The detailed table relating to the last five years shows clearly the influence which the decline in the wheat carry-over and the funding of certain special loans to the C.P.R. had in causing the total amount of loans outstanding to decline between 1935 and 1936. The table indicates that, eliminating the influence of these two special factors, Canadian loans actually rose by about $16 million between October 31, 1935, and October 31, 1936.

Last Wednesday morning (page 659) Mr. McGeer asked for figures showing the relationship between exports of goods and services and national income in the United Kingdom and in Canada. I should now like to place these figures upon the record. They show that in recent years exports of goods and services have been 15 per cent or less of United Kingdom national income, while in Canada they have made up 30 per cent or more of our national income.

Mr. McGeer also asked (Page 659) that the table which appears on page 559 of the evidence dealing with net repatriation of Canadian government bonds be broken down to show national, provincial and municipal bonds separately. I have that break-down here and have taken the opportunity to complete the picture by adding similar figures in respect of unguaranteed railway bonds and other corporate bonds. The summary tables which I have attached show total net new bond issues sold abroad of $726 million in the years 1927-32 inclusive. In the next five years the net repatriation of all types of Canadian bonds amounted to $447 million.

In connection with the same question I am also filing a statement showing the value of net Canadian exports of non-monetary gold during the years 1927-37.

In connection with a comparison of defence expenditures in the United Kingdom and in Canada, Mr. McGeer also asked (page 660) for certain comparative statistics in these two countries. In respect of two of the bases which he mentioned (page 356), viz., "resources of wealth" and "value of assets within the nation" no figures are available. However I have here the other statistics for which he asked and shall now place them upon the record.

Last Wednesday afternoon I promised Mr. Kinley (page 688) to provide a table showing loan interest rates in various parts of the United States. The figures I have here from the Federal Reserve Bulletin are average rates of interest earned on loans in the first half of 1936 by banks which were members of the Federal Reserve System. Unfortunately this is the latest information available on this subject but I would not expect the picture to have changed substantially since that time. The table shows that the average rate varied all the way from 2·36 per cent for all the New York city banks to 8·80 per cent for all the country banks in the Federal Reserve District of Dallas.

CHARTERED BANKS: ANNUAL CLASSIFICATION OF LOANS IN CANADA

(Department of Finance)
(Millions of Dollars)

As at October 31	1934	1935	1936	1937	1938
Financial:					
Call loans and other accommodation to brokers and dealers	90·7	66·7	97·4	73·5	62·4
Loans to specified institutions	70·0	63·1	73·8	69·0	66·9
Loans to individuals against securities	115·2	101·2	111·5	142·6	120·5
Total Financial	275·9	231·0	282·7	285·7	249·8
Provincial Governments	26·8	29·7	14·7	26·4	22·8
Municipal Governments and School Districts	107·4	96·8	92·0	94·2	114·5
Farmers Loans, Cattle Loans, Fruit Raisers	64·2	59·9	54·0	57·5	56·8
Merchandising, wholesale and retail	117·5	113·8	115·9	129·6	133·7
Manufacturers of and dealers in lumber, pulpwood and products thereof	74·3	73·0	64·9	62·9	75·2
Other manufacturing of all descriptions	140·1	119·2	130·0	156·6	138·4
Mining	6·6	6·8	6·9	6·1	8·9
Fishing, including loans to packers and curers of fish	7·0	7·2	8·2	7·7	8·7
Loans to Building Contractors and others for building purposes	21·8	24·1	23·7	33·6	39·2
Loans to Churches, Hospitals, Charitable and Religious institutions	19·7	16·1	14·8	16·4	19·4
Other Loans	66·5	52·3	53·0	61·6	74·7
Sub-Total	927·8	829·9	860·6	937·9	942·0
Public Utilities, including Transportation companies	71·4*	71·3*	8·4	11·9	24·9
Loans to Grain Dealers, Grain Exporters and Seed Merchants	150·5	166·4	64·5	30·8	91·7
Total Loans in Canada	1,149·7	1,067·6	933·5	980·6	1,058·6

* Includes $48 mm. of special loans to C.P.R. which were guaranteed by Dominion Government and which were repaid from the proceeds of bonds issued early in 1936.

[Mr. Graham Ford Towers.]

ANNUAL CLASSIFICATION OF LOANS AND DISCOUNTS IN CANADA: 1927–1933 ESTIMATED BY BANK OF CANADA

(Millions of Dollars)

As at Nov. 30*	Call	Other Financial	Total Financial	Governments	Agricultural	Manufacturing (including Mining and Forest)	Merchandising	C.P.R. Special	All Other	Total ex Financial	Grand Total
1927.......	223	175	398	94	235	325	200	....	145	999	1,397
1928.......	250	250	500	116	250	350	250	....	138	1,104	1,604
1929.......	250	350	600	126	300	375	275	....	143	1,219	1,819
1930.......	212	250	462	123	250	325	225	....	134	1,057	1,519
1931.......	157	225	382	160	225	300	175	....	178	1,038	1,420
1932.......	108	175	283	141	220	275	150	....	179	965	1,248
1933.......	105	150	255	124	220	200	125	60	129	858	1,113
As at Oct. 31											
1934.......	108	168	276	134	215	221	118	48	138	874	1,150
1935.......	74	157	231	127	226	199	114	48	123	837	1,068
1936.......	109	174	283	107	119	202	116	....	107	651	934
1937.......	82	203	285	121	88	226	130	....	131	696	981
1938.......	66	184	250	137	149	223	134	....	166	809	1,059

* Except in the case of call loans and loans to governments, statistics for the years 1927–33 are estimates, given in round figures.

EXPORTS OF GOODS AND SERVICES IN RELATION TO NATIONAL INCOME

UNITED KINGDOM

(Millions of Pounds Sterling)	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Income from Exports of Goods (Domestic Exports).........................	650	710	720	730	570	390	370	370	400	430	440	520
Income from Exports of Services (Estimated)............................	260	280	270	270	230	160	150	140	150	150	170	220
Total Income from Sale of Goods and Services Abroad (Estimated)....(1)	910	990	990	1,000	800	550	520	510	550	580	610	740
Total National Income (Estimated)..(2)	4,200	4,400	4,300	4,400	4,300	3,900	3,800	4,000	4,200	4,500	4,800	5,100
(1) as a percentage of (2)................	22%	23%	23%	23%	19%	14%	14%	13%	13%	13%	13%	15%

CANADA

(Millions of Dollars)	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Income from Exports of Goods (Domestic Exports).........................	1,290	1,240	1,380	1,190	900	650	560	610	760	840	1,070	1,140
Income from Export of Services (Estimated)............................	330	370	400	420	360	320	260	170	200	290	340	410
Total Income from Sale of Goods and Services Abroad (Estimated)....(1)	1,620	1,610	1,780	1,610	1,260	970	820	780	960	1,130	1,410	1,550
Total National Income (Estimated)..(2)	4,600	4,900	5,300	5,400	4,700	3,800	3,000	2,900	3,300	3,500	3,700	4,100
(1) as a Percentage of (2)................	35%	33%	34%	30%	27%	26%	27%	27%	29%	32%	38%	38%

CANADIAN BONDS: NET NEW ISSUES ABROAD (+)* OR REPATRIATIONS (−)*: 1927-1937

(Par Values in Millions of Dollars)

Calendar Years	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Dominion Direct and Guaranteed Bonds (excluding Railways).....	− 3·4	− 8·8	− 47·1	+103·8	− 46·0	+ 56·4	+ 64·1	+ 6·9	+ 58·5	− 4·6	+ 18·1
Provincial Direct and Guaranteed Bonds (excluding Railways).....	+ 41·1	+ 11·2	+ 48·0	+ 69·9	+ 14·1	+ 3·3	− 36·7	− 15·0	− 24·3	− 15·1	− 17·8
Dominion Guaranteed Railway Bonds........	+ 48·4	+ 17·4	+ 71·0	+ 21·8	+ 48·5	− 3·6	− 1·8	− 18·5	−111·5	− 31·0	− 1·3
Provincially Guaranteed Railway Bonds........	....	....	− 1·6	− 19·3	....	....	....	....	....	− 1·1	....
Municipal Bonds.........	+ 21·6	+ 0·4	+ 6·6	+ 29·3	+ 11·2	− 25·7	− 16·0	− 2·4	− 15·0	− 19·4	− 23·3
Total Government Bonds..........	+107·7	+ 20·2	+ 76·9	+205·2	+ 27·8	+ 30·4	+ 9·6	− 29·0	− 92·3	− 71·2	− 24·3
Railway Bonds Unguaranteed..............	− 22·5	− 18·7	+ 42·5	+ 52·3	− 0·4	− 8·3	− 8·3	− 11·7	− 19·5	− 26·2	− 5·0
Other Corporation Bonds	+ 97·1	+ 38·2	+ 56·8	+ 65·0	− 23·9	− 20·1	− 31·3	− 12·5	− 25·1	− 46·7	− 54·0
Total..............	+182·3	+ 39·7	+176·2	+322·5	+ 3·5	+ 2·0	− 30·0	− 53·2	−136·9	−144·1	− 83·3

	Total 1927-1932 (incl.)	Total 1933-1937 (incl.)	Total 1927-1937 (incl.)
Dominion Direct and Guaranteed Bonds (excluding Railways).......	+ 54·9	+143·0	+197·9
Provincial Direct and Guaranteed Bonds (excluding Railways).......	+187·3	−108·9	+ 78·4
Dominion Guaranteed Railway Bonds..............................	+203·5	−164·1	+ 39·4
Provincially Guaranteed Railway Bonds..............................	− 20·9	− 1·1	− 22·0
Municipal Bonds..............................	+ 43·4	− 76·1	− 32·7
Total Government Bonds..............................	+468·2	−207·2	+261·0
Railway Bonds Unguaranteed..............................	+ 44·9	− 70·7	− 25·8
Other Corporation Bonds..............................	+213·1	−169·6	+ 43·5
Total..............................	+726·2	−447·5	+278·7

* This table takes no account of net international sales or purchases of outstanding securities, statistics of which are not available for the whole of the period here covered.

CANADA

Net Exports of Non-Monetary Gold

	(Millions of dollars)		(Millions of dollars)
1927..	32·2	1933..	81·7
1928..	40·1	1934..	113·6
1939..	37·2	1935..	118·7
1930..	38·9	1936..	131·6
1931..	56·9	1937..	145·1
1932..	70·0		

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COMPARATIVE STATISTICS

	United Kingdom	Canada
Population—1938	47·5 million	11·2 million
National Debt (Direct and Guaranteed)—1938	£7·5 billion[1]	$6·7 billion[2]
National Income—1937	£5·1 billion	$4·1 billion
Bank Deposits—March, 1939	£2·7 billion[3]	$2·5 billion[4]
Bank Deposits (as above) plus Notes and Coin outside banks—March, 1939	£3·1 billion	$2·7 billion
Government Expenditures (ex Defence and Post office), 1937-8	£660 million	$810 milion[5]
Advances—March, 1939	£990 million[6]	$940 million[7]
Domestic Exports—1938	£470 million	$1,000 million
Retained Imports—1938	£860 million	$670 mililon

[1] Excluding £1,032 million of War Debts and £429 million of Local Loans.
[2] Dominion, Provinces and C.N.R.
[3] London Clearing Banks plus Post Office Savings Bank.
[4] Canadian Deposits of Chartered Banks.
[5] Dominion and Provinces.
[6] London Clearing Banks.
[7] Chartered Banks—Current Loans in Canada.

UNITED STATES

AVERAGE RATE OF INTEREST EARNED ON LOANS BY MEMBER BANKS IN FIRST HALF OF 1936

(Source: Federal Reserve Bulletin, April, 1937)

Federal Reserve District	Central Reserve City Banks	Reserve City Banks	Country Banks
Boston	....	2·88	4·88
New York	2·36	3·98	4·94
Philadelphia	....	3·58	5·16
Cleveland	....	4·38	6·00
Richmond	....	4·62	5·68
Atlanta	....	4·34	6·32
Chicago	3·22	4·02	5·66
St. Louis	....	3·78	5·90
Minneapolis	....	3·72	5·48
Kansas City	....	4·46	7·58
Dallas	....	5·00	8·80
San Francisco	....	4·90	6·32

The CHAIRMAN: Mr. Stevens, as I recall, in the house rather recently you gave some figures as to the proportion of the export trade, and it seems to me it was under the 30 per cent and that your figures coincided with what I had in my memory. Is there a different calculation?

Hon. Mr. STEVENS: The proportion of export trade to what?

The CHAIRMAN: Mr. Towers, are you giving the proportion of export trade to income or production?

Mr. TOWERS: To national income.

Hon. Mr. STEVENS: I did not give any figures comparative with those.

The CHAIRMAN: No, your figures were given in comparison to what? Were not the figures in proportion to production? What is the difference between production and national income? Certainly the League of Nations in its survey does not credit us with 30 per cent.

Mr. TOWERS: What I have is income in relation to domestic exports and the income from the export of services, which includes the tourist trade—the proportion of those two things to the national income.

The CHAIRMAN: You include the tourist trade.

Mr. TOWERS: Yes.

Mr. DEACHMAN: National income would be very substantially above production.

Mr. CLEAVER: About 40 per cent.

Mr. DEACHMAN: Sixty per cent.

The CHAIRMAN: I think the usual figure I have must leave out the tourist trade. I got it from the Bureau of Statistics, and it was around 16 to 18 per cent. It varies from year to year—16 per cent to 20 per cent as I recall it.

Hon. Mr. STEVENS: Of course, I always question the validity of those tourist figures.

The CHAIRMAN: Yes, I do also.

Hon. Mr. STEVENS: Because there are no precise statistics on it, and I think that frequently a very, very exaggerated picture is given by advertising agencies and other interested parties.

By the Chairman:

Q. Mr. Towers, do you include tourist figures in your U.K. statement?—A. Yes, that is in the statement for the U.K. I include income from export of services of all kinds.

By Hon. Mr. Stevens:

Q. Oh, yes, their shipping. Their shipping income is terrific; it is one of their largest items, and their interest income from loans abroad and that sort of thing; but the tourist interest alone— —A. Interest is not included in the U.K. figures.

Q. Not in their services?—A. No.

By the Chairman:

Q. I think it would be more valuable to have the figures simply relating to exports of merchandise. Now, you take in gold, I presume, with our exports?—A. Yes.

Q. I would like to have the figures for what they are worth of the exports of merchandise.—A. Of course, these do show here separately. We have not bulked the total.

Q. What is the percentage of merchandise figures?—A. In 1937 about 23 per cent.

Q. That is the figure I have in my mind.—A. In 1932 it would be less than 20 per cent.

By Hon. Mr. Stevens:

Q. Do you include gold?—A. Yes.

Q. I do not think gold should be included.

The CHAIRMAN: No.

Hon. Mr. STEVENS: We never used to include it.

Mr. CLEAVER: That was exported as a commodity and it should be.

By Hon. Mr. Stevens:

Q. I know, but gold has a peculiar merit, that it is capable of use for the correction of dislocation of exchange balances between countries.

Mr. TOWERS: It has the merit, of course, that it is readily saleable at a fixed price. That is its advantage as compared with wheat. Nevertheless, I

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think in our trade it remains a commodity, and, to take it out of the export figures does, I think, result in distorting the picture, because the production of gold is inevitably responsible for quite a substantial amount of our imports.

By Hon. Mr. Stevens:

Q. Quite so, but gold never was included in our exports until very recent years?—A. I think the fact that it was not included in those earlier years was a mistake.

Q. Of course, it was always shown as a separate item?—A. Yes.

Q. In my opinion it ought still to be shown as a separate item, because in making your calculations upon national economy generally one can always take gold as something which can be used in a very much different way from the way in which ordinary exports can be used. You cannot divert wheat or lumber at will. Wheat and lumber flow into certain markets pretty steadily and uniformly, but gold is something which can be switched from London and, for a number of years, was switched from London to New York or back to London overnight.—A. I think it does not make any difference where the commodities are sold unless one is selling them to a country where they have a blocked exchange system. Something sold in the United Kingdom and producing sterling is just as good from our point of view as something sold in the United States, because sterling can be changed into dollars, and, therefore, the diversion takes place in that form.

By Mr. Deachman:

Q. You could not present a picture of South African trade leaving out gold?—A. I was just going to say that that would be an extreme case to eliminate gold from South African figures. Our percentage is not as high as South Africa, but I think the argument is the same.

By Mr. Jaques:

Q. Gold is of no real use.—A. I think it is of very real use indeed, and as a citizen of a gold-producing country I will contend that with my dying breath.

Q. Somebody has to pay for it.—A. Yes.

Q. It is of no real use.—A. I think it has great use.

The CHAIRMAN: Mr. Towers, the thought I had in mind was that we should have our figures comparable with the figures of other nations as presented by the League of Nations. I have just handed to Mr. Stevens a diagram showing the exports of other nations, and they are in the form of the relation of exports of merchandise to the national income. I think, Mr. Stevens, I am correct in saying that the highest ratio in Canada was around 20 per cent in 1929.

Hon. Mr. STEVENS: Yes. 20 per cent was the maximum.

Mr. TOWERS: Of course, in those national income figures I think services are included, so that it is rather awkward to put them in one portion of the comparison and leave them out in the other.

The CHAIRMAN: You will have to find fault with the League of Nations. What I wanted was a comparison on a basis accepted by the League of Nations. We could have it in several different ways, I suppose.

Mr. TOWERS: Yes.

The CHAIRMAN: The surprising thing, Mr. Stevens, is the high percentage—

Hon. Mr. STEVENS: Denmark, Norway and Sweden—

The CHAIRMAN: Denmark, Sweden, Finland, the Netherlands, Esthonia, New Zealand as compared with Australia, France, Canada, Germany, Japan, the United Kingdom and the United States, and I have given them in their order.

Hon. Mr. STEVENS: My comparison, to which you referred, Mr. Chairman, was to production.

The CHAIRMAN: Yes.

Hon. Mr. STEVENS: I was comparing it to production.

Mr. DEACHMAN: Exports to production?

Hon. Mr. STEVENS: Yes.

Mr. DEACHMAN: What would you call, for instance, the erection of buildings and the construction of sidewalks? They would be included in our records of production.

Hon. Mr. STEVENS: Yes.

The CHAIRMAN: Mr. Stevens, were you not comparing it with the production of merchandise?

Hon. Mr. STEVENS: Yes.

The CHAIRMAN: The comparison I have here, and I have it as set up by the League of Nations, is that of the exports of merchandise as a percentage of national income.

Mr. DEACHMAN: Yes.

The CHAIRMAN: That means exactly what it says.

Mr. DEACHMAN: Of course, it is comparing incomparable things, because it includes services in Canada which would include the building of sidewalks and that sort of thing.

The CHAIRMAN: Again I say you will have to find fault with the League of Nations.

Hon. Mr. STEVENS: It depends on what you want to use it for. A comparison of the exports of merchandise to national income, if it is limited to merchandise, will answer the same purpose. If you include services, and all the other things, the comparison then could be used for some other purpose.

The CHAIRMAN: Yes.

Hon. Mr. STEVENS: It depends upon what use you are going to make of it.

The CHAIRMAN: Proceed, Mr. Cleaver.

By Mr. Cleaver:

Q. I have just one question arising out of our present discussion, Mr. Chairman. Do I understand, Mr. Towers that, in preparing this percentage which our total exports bear to the total national income,—that in computing the national income you included all national incomes; such as, income which professional men would earn?—A. Yes, that is my understanding.

Q. Then if you eliminated from this one bracket of your percentage everything excepting actual production of goods, you would increase your percentage of exports still higher, would you not?—A. Yes. Leaving out the export of services, tourist trade, and so forth, and just putting in exports of merchandise, but eliminating, on the other hand, all the income which arises from services, I suppose it would give a higher percentage.

Q. Have you any figures at hand now to show what percentage of the total national income would be composed of actual production of goods?—A. No.

The CHAIRMAN: Just before proceeding may I read you this statement as to why the League of Nations put their graph in the form that I have suggested:—

> In order to illustrate the differences in the degrees of dependence upon exports, the graph on the preceding page shows the value of exports expressed as a percentage of national income for a number of countries for which the information is available. Great disparities in the dependence upon foreign markets become clear at a glance. In 1929 exports

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ranged from 44 per cent of the national income in Denmark to 6 per cent in the United States. As is to be expected, the small countries have to be the most dependent upon foreign markets.

Mr. CLEAVER: Mr. Chairman, is there anything in the article from which you were reading to the effect that the figures compiled by the League of Nations with respect to Denmark's national income include services, or that they simply include production of goods?

The CHAIRMAN: I have not observed that.

Mr. CLEAVER: I did not hear you read anything to that effect in the article. It would be interesting to know that.

Mr. TOWERS: I would certainly assume it included services. That is the usual basis on which national income estimates are made up.

By Mr. Cleaver:

Q. For the purpose of making a satisfactory comparison with Canada, would we not also have to know something about the standard of living in Denmark as compared with the standard of living in Canada?

The CHAIRMAN: We could go on and bring forward a number of consequences, of course.

Mr. CLEAVER: Absolutely.

By Mr. Cleaver:

Q. When the committee adjourned at our last meeting, Mr. Chairman, we were discussing a suggestion which had been made at a previous meeting by one of our committee members to the effect that our banks in Canada do not disclose all of their assets. I asked Mr. Towers the question and then followed a little discussion among the members and I was just wondering as to whether he has anything further he would like to state in answer to my question.—A. Mr. Cleaver, I think, as I said on the last occasion, the underlying thought must have been the setting aside of reserves by banks for possible or probable losses. All banks follow or should follow that practice. I think it would be most undesirable if they did not do so, and I think that the existence of a reserve which is based not on the book value of loans and investments, but makes allowance for possible unfavourable eventualities, is a vital factor in maintaining the solvency of any banking system.

I think the practice which has been followed through the years by Canadian banks in that respect had a very important bearing on their ability to come through the depression which commenced in 1929. Incidentally, I should point out that the subject of reserves was discussed at some length in the Banking and Commerce Committee during the 1923 revision of the Bank Act. It will be found on pages 283 and 284 of the minutes of proceedings and evidence, also at page 287.

Q. 1933?—A. 1923. Also on page 849. It may also have been discussed in some earlier revisions, but I have not gone through the records of those.

Mr. CLEAVER: Mr. Jaques is here and he can perhaps clear up the question now. I understood his charge was that the banks had undisclosed assets. That, of course, is quite a different thing from a yearly revision of their reserves to meet anticipated contingencies.

Mr. JAQUES: Mr. Chairman, I do not make any charge, I merely make the statement, and it is well known. I should have thought every member of this committee was familiar with it. In many ways, of course, the reserves can be hidden; they can be used for writing down the book value of the assets.

Hon. Mr. STEVENS: For instance, the writing down of the value of buildings is, of course, a very common practice in many institutions, including banks. Buildings are sometimes written down to a dollar, a mere nominal value over a period of years; but I would not consider that was an undisclosed asset.

Mr. CLEAVER: No, no.

The CHAIRMAN: It is shown on the books.

Hon. Mr. STEVENS: It is shown on the books, and they say it has a certain value.

Mr. JAQUES: That is merely an outward visible asset. We can all see the building, but we do not know.

Hon. Mr. STEVENS: You are not referring to collateral, are you?

Mr. JAQUES: I am not familiar with the technicalities of banking, and I do not think we are here to discuss the technicalities.

Mr. CLEAVER: Mr. Jaques, I do not want to labour this point but I do want to understand what your statement was. Is it your belief that the banks have assets, securities or otherwise, which they do not disclose in their regular bank statements?

Mr. JAQUES: Yes.

Mr. CLEAVER: That is exactly what I understood the statement to be. I think, Mr. Chairman, that statement should be very carefully probed and the charge should be either proven or exploded.

Mr. JAQUES: I have seen a statement by a well-known chartered accountant in Great Britain that the assets are not disclosed even to the bank accountants who examine the books.

The CHAIRMAN: As to Canada, Mr. Jaques?

Mr. JAQUES: Well, it was argued here—

The CHAIRMAN: No, but you are speaking of a chartered accountant in Great Britain; do you say he made that statement as to Canadian banks?

Mr. JAQUES: Oh, no, British banks.

The CHAIRMAN: That is a different thing. Your statement is applied to Canadian banks.

Mr. JAQUES: Yes, I know, but five years ago when the statement was made that the British banks created money the answer here was, "Well, they may do it in England but not in Canada."

Mr. TOWERS: I wonder if what you are thinking of is this: If a bank has, shall we say, $200,000,000 of loans on its books—loans that are carried on the various records across the country as $200,000,000—at the close of the year the shareholders, auditors of the bank and the executive of the bank concerned would have a look at those loans. They would say of the $200,000,000, "We certainly feel that ultimate collection of a certain amount, shall we say, $1,000,000, is quite doubtful; we have no confidence in collecting that portion of the total. We may also say that a further amount of $1,000,000, while not definitely as bad as the first, is also something on which we would not care to rely. Finally, knowing our experience over a period of years, knowing that bad times crop up occasionally, we would feel much more confident in regard to the validity of the figures on our balance sheet if we put the total down at $196,000,000; we would feel that that amount is really collectable.

That is the process of setting up reserves against probable or possible losses; that and nothing else.

Now, the actions of the banks in that respect, or their actions in setting up reserves against fluctuations in the value of their security portfolios—which

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fluctuations as we know do take place on a substantial scale—is known in detail to the shareholders' auditors, to the inspector-general of banks and to the Minister of Finance.

By Mr. Clark:

Q. In their published statements they also state "estimated losses provided for."—A. That is right.

Mr. JAQUES: I am not suggesting for a moment that there is anything dishonest about it. It is merely a practice which has rather had the consent of the people. So long as the people are content that the banks should be run as they are, well, I do not blame the banks as long as the people do not blame them.

Mr. TOWERS: In fact, not only not blame, but I would say that the inspector-general of banks and the Minister of Finance, if they thought that a bank was not being sufficiently conservative in that respect, would have something to say to that bank right away.

By Mr. Stevens:

Q. That process is distinctly meritorious. I think it is done by any well-run corporation.—A. It is, and by banks for the safety of their depositors.

Q. If they did not do it they would be derelict in their duty to the shareholders and to the public.—A. And to the depositors more than the shareholders, I would say, in the case of banks.

Mr. JAQUES: Mr. Chairman, you cannot judge the profits of banks merely by the dividends they pay. That is the point.

Mr. TOWERS: But the amount which they set up as reserves is not a profit, if those reserves are needed. That is, unless the reserve is greatly in excess of anything that is ever needed, it is not a profit; it is an amount taken from gross earnings to meet losses.

By Hon. Mr. Stevens:

Q. Conversely, if the bank or the corporation is unreasonable to the extent that they set up these reserves sooner or later it comes back upon them as an abnormal or excessive earning.—A. Yes.

Q. Which would be just as embarrassing for them as not to have made adequate provision?—A. Yes.

Mr. CLEAVER: Mr. Jaques, may I just ask this concluding question on this point? Have you any knowledge, personal or otherwise, which you can place before this committee to substantiate your belief that the banks' statements in Canada to-day do not disclose all of their assets?

Hon. Mr. STEVENS: Fairly disclose.

Mr. CLEAVER: Yes, fairly disclose.

Mr. JAQUES: Banking is much the same all over the empire—all over the world for that matter. I had a statement from responsible men—

Mr. CLEAVER: Who are they?

Mr. JAQUES: More than that, I have never seen it contradicted.

Mr. CLEAVER: The fact that it has never been contradicted is not evidence.

Mr. DEACHMAN: Here is one way in which it was explained some years ago. At about the middle of the depression when the banks had lost substantial amounts, this statement appeared in the banks' accounts, or words to this effect: we have transferred from our regular reserves to our inner reserves certain sums, naming them, substantial sums. Now, about that time I discussed this matter with one of your distinguished banking confreres. I know that you know him quite well but I do not want to name him here, and I urgued this question

with him, that they should not have inner reserves which did not disclose their full statement, and his answer to me was that it was dangerous to disclose the full reserves because there would be demand from the public for lower rates of interest and lower charges for services. We discussed that thing—I cannot express it in time—for at least 150 miles.

Mr. TOWERS: I do not think that the argument for what you might call a first line reserve set up on the basis of a conservative appraisal of assets, I do not think the argument for that depends on the point which the man you are speaking of mentioned.

Mr. DEACHMAN: I protested against having inner reserves which are not disclosed. The question was on the point whether they should be disclosed or not.

Mr. TOWERS: If they were included in the published reserve fund, then you would find that every material fluctuation in the price of securities or any material change in the business situation, perhaps any slight change in the business situation which made it necessary to write off bad debts, would mean that the banks had to take amounts from their published reserve funds for these purposes. In a severe depression they usually have to do that thing; but a conservative appraisal of assets which, in effect, is the meaning of inner reserves, does enable them to take normal losses, to stand anything which may reasonably be expected in the form of fluctuations, without constantly making transfers from their published reserves. Bearing in mind public psychology, particularly in bad times, I think that constant movements from published reserves would unsettle people's minds.

Mr. DEACHMAN: Then there must be an inner reserve.

Mr. TOWERS: There must be an inner reserve in the form of what I would call a conservative valuation of assets.

Mr. DEACHMAN: Not beyond that?

Mr. TOWERS: I think that fairly expresses it.

Mr. TAYLOR: Are there not contingency reserves developed?

Mr. TOWERS: That is the same thing I have in mind.

Mr. CLEAVER: Perhaps our steering committee could consider this point and if they deemed it wise, recommend that certain witnesses be called in that regard.

Mr. TOWERS: As I say, at the 1923 revision of the Bank Act this ground was covered fairly fully.

Hon. Mr. STEVENS: Yes, I remember it very well.

Mr. CLEAVER: Then, there was another question arising out of our discussion the other day. Mr. Jaques in referring to the losses which we all sustained in 1929 and 1930, stated these words: "There have been losses; where have they gone?" Then a little further on: "It does not go into thin air," indicating that the losses to the general public were gains to somebody else.

Mr. JAQUES: Certainly.

Mr. CLEAVER: Now he says "certainly" to confirm that.

The CHAIRMAN: What did Mr. Deachman say?

Mr. CLEAVER: I should like to ask the governor if he would anser that problem.

Mr. TOWERS: If a bank has made a loan to an individual of $1,000—

By Mr. Cleaver:

Q. Excuse me; I am not referring to bank losses, I am referring to losses by the public.—A. Well, I was just coming to that, because it was associated with bank transactions, I think. If a bank has made a loan of $1,000 to an

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individual and that individual has had an unfortunate business experience and had to go into liquidation, as a result of the liquidation the bank gets, shall we say, $200 back out of the $1,000 it loaned. The individual has lost his business; the bank has lost $800. I cannot quite follow what is in Mr. Jaques' mind when he suggests that that $1,000 loss by the individual results in $1,000 profit to the bank.

Q. I suggest, Mr. Towers, that the loss occurred through shrinkage in valuation of real wealth?

Mr. QUELCH: What about the borrower's collateral that he put up? He loses his collateral.

Mr. TOWERS: On the basis of the example I gave, the realization of the collateral produced $200, leaving the bank with a loss of $800.

By Mr. Cleaver:

Q. That drop in the actual value of the collateral really represents the loss?—A. Yes.

Q. Which in turn is reflected by reduction in values and prices?—A. It may be, or else in cases where the loss is not so extreme it may be through ill-advised business transactions. For example, if in producing certain goods the borrower has conducted his operations not very efficiently, even extravagantly, he may have paid out for production costs $1,000 for goods which he can only sell for $800 or $900, and it might even happen that there had been no variation in the price of those goods.

Q. Well, then, coming to my next point—

Mr. JAQUES: I have not had a chance to answer that. You state I made the charge.

Mr. CLEAVER: Perhaps Mr. Jaques should be permitted to answer right now; I am quite content.

Mr. JAQUES: Well, here again I am not bringing any charge of dishonesty in the least; it is part of the system which the banks enjoy with our consent.

Mr. CLEAVER: What do you mean by "the banks enjoy"? Do you suggest the banks profited to the extent of all our personal losses in 1929

Mr. JAQUES: I do, to this extent. I think the privileges which the banks enjoy are valuable to the banks beyond all knowledge or belief of the general public.

Mr. CLEAVER: I wonder if you would mind just answering that simple question which I put to you, Mr. Jaques. Do you suggest that the losses which we all personally took in 1929 were corresponding profits for the banks?

Mr. JAQUES: Profits, in this way. The profits are not represented by—if I can explain myself—actual financial statements. The profits are represented by the ever increasing power of the financial institutions of which the banks are the chief, over the industrial life of the nation. Let me give you an illustration. A friend of mine was purchasing agent in England for one of the largest corporations in the world. I will not mention the corporation, but you can take it from me that it is one of the best known and one of the biggest in the world. After the war they were led to believe that during 1919 and 1920 the country was going to enjoy a tremendous period of expansion, and on the strength of that this particular corporation—and of course we would anticipate rising prices—went ahead and bought raw materials to a great extent. Those were raw materials which were not produced in England. They also enlarged their premises to the extent of $40 million. Of course, that was done, as you can understand, on credit. Now, when they had committed themselves to that tremendous program—

The CHAIRMAN: Do you mean bank credit?

Mr. JAQUES: Largely.

The CHAIRMAN: Surely they did not expand their premises to that extent on bank credit; banks are not there for that purpose.

Mr. JAQUES: That is what I say; they do not seem to realize the truth.

Hon. Mr. STEVENS: What happened?

Mr. JAQUES: The policy was one of deflation, and then what? The raw materials which they had bought ahead caused them to incur enormous losses, their credit was gone, and what? The banks said: Gentlemen, your credit now is very poor, but we think that if you will retire some of your directorate and allow us to replace them your credit will certainly not be hurt. That is what happened. That is what happened all through industry in Great Britain after the war. The men who had built up those industries and who were interested in production only were replaced by men who were merely agents of the institutions; and I believe it is a fact that 85 per cent of industry to-day is under lien or under control in Great Britain to the financial institutions. That is true there, and I believe it is largely true in Canada. I am not saying there is anything criminal in it. It is the result and the inevitable result of the power which we have given to individuals to create and to destroy money at their own will. Is there any argument against it? The remedy is in our own hands.

Mr. TOWERS: If I might interject something there, though, perhaps, it is not my place to do so—statements of belief are awfully hard for a witness to comment on when they are in no way supported by facts of any kind. For example, the statement that 85 per cent of industry is under lien to the banks is, to me, a fantastic one. It is something that never existed on sea or land. If, however, you could give me anything to show why you believe that—anything to support the statement—then, of course, one could examine it.

Mr. JAQUES: I will put the condition of the farming industry in our own country.

Mr. TOWERS: Were not we speaking of England a moment ago?

Mr. JAQUES: Yes.

Mr. CLEAVER: And before we come to our own farming, I should like to state that the proposition which you have just advanced, where the directors of a company have made such a bad mistake in judgment—

Mr. JAQUES: Was it a bad mistake?

Mr. CLEAVER: It turned out to be one—those directors should expect the shareholders to remove them.

Mr. JAQUES: The shareholders did not do it.

Mr. CLEAVER: They should replace them with other gentlemen who would have better business judgment.

Mr. JAQUES: Do you think it is poor judgment when the government of the country intimates to industry to expand and then when they have done so—

Mr. CLEAVER: What evidence have you of that?

Mr. JAQUES: The evidence of history. That is the history when England went back to the gold standard in 1926. What happened? I can show you—

Mr. CLEAVER: Now, Mr. Jaques, if you do not mind, this is my time—

Mr. JAQUES: I know, but you bring this out—Mr. Chairman, I am here and so is my colleague, probably, from a little different purpose from some of the other people.

Mr. CLEAVER: Before you leave that point, will you please indicate the different purpose? Are you suggesting I am not serving my country?

Mr. JAQUES: I am not suggesting anything; I am merely suggesting that I am not here to defend the banks.

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Mr. CLEAVER: Are you suggesting that I am here to defend the banks? There is nothing to be gained by refusing to face facts.

Mr. JAQUES: I am speaking for myself.

The CHAIRMAN: Mr. Jaques, will you listen to the chair for a moment. Mr. Cleaver has the floor. Mr. Cleaver asked a question and gave you permission to answer it, but the time is passing very rapidly, and I think we ought to conform to Mr. Cleaver's wish to allow the incident to be closed. I think you have had sufficient time to answer the question.

Hon. Mr. STEVENS: I might say this, and I hope Mr. Cleaver will pardon me, but I think it was a mistake for Mr. Cleaver to ask Mr. Jaques a question as if Mr. Jaques was a witness. Once it was done, I think Mr. Cleaver should allow Mr. Jaques to finish.

Mr. CLEAVER: I am myself to blame for bringing this on.

The CHAIRMAN: I think we should allow Mr. Cleaver to finish his statement.

Mr. JAQUES: Mr. Chairman, I have noticed a tendency in this committee to allow us to make a half sort of statement which goes into the record unfinished and anybody reading the thing would assume that we have admitted we were wrong. Then we are stopped—

The CHAIRMAN: I doubt that the record will carry out that impression.

Mr. JAQUES: We are damned by faint praise. I should like to make one short statement from an authority in Great Britain.

The CHAIRMAN: No, no.

Mr. JAQUES: Bearing on this very thing.

Mr. CLEAVER: I would suggest that if the Social Credit members—

Mr. JAQUES: This is not social credit.

Mr. CLEAVER: —they should be permitted to add anything in reason, but I do not think that they should be interspersing their opinions in my time.

Mr. JAQUES: This is not social credit; it is a statement by a former director of the Bank of England.

The CHAIRMAN: I must rule that Mr. Cleaver has the floor and that the statement should not be made without his permission.

Mr. JAQUES: Then, Mr. Chairman, when I am asked a question I should be allowed to answer it.

The CHAIRMAN: I agree with you there.

Mr. JAQUES: If you would only allow me to read these half dozen lines I shall sit down.

The CHAIRMAN: Very well, read them.

Mr. JAQUES: This is a statement by Vincent C. Vickers, late director of the Bank of England:—

> I have watched for ten years every move, every wiggle of financial policy; I have seen the effects of the greatest financial blunder the world has ever known—our return to the gold standard after the war, and its effect upon our basic industries, coal, cotton and agriculture.

The CHAIRMAN: Proceed, Mr. Cleaver.

By Mr. Cleaver:

Q. I find, Mr. Towers, in the discussions that have been addressed to this committee that there is still a great deal of misunderstanding with regard to what happens when our central bank causes an expansion of credit through its market operations of buying securities. I wonder if you would be good

enough to take an individual case—say, take an expansion movement whereby the Bank of Canada buys $10,000 worth of securities, and follow that movement right through the entire picture just as you would a slow moving picture, and giving names to every individual who participates in that movement, and then give us a summarized statement at the finish showing the debit and credit entries with respect to the Bank of Canada, the merchant bank that featured in the movement and every individual customer?—A. Would you prefer that I should try to do that now extemporaneously, or would it be better to have a statement with the necessary tables showing those various changes?

Q. I would prefer a well thought out carefully written statement, and I suggest in order that there be no misunderstanding that you should assume that all of the transactions take place in one merchant bank so that we will not be confusing the different banks, but we will have, if possible, a statement so simple that everyone will clearly understand it.

Mr. Quelch: Could the difference be shown between the action of the Bank of Canada buying securities from chartered banks and the action of buying them from a private individual or a corporation

Mr. Towers: Yes, we will have two sets of statements showing the one thing and the other.

Mr. Kinley: It will not stay in any one bank.

Mr. Towers: I think Mr. Cleaver's thought is that it would be more simple to visualize the commercial bank end of the transaction as if there was only one commercial bank in Canada.

Hon. Mr. Stevens: Of course, that is on the record now.

Mr. Towers: It will simplify the matter.

Mr. Cleaver: There are several members of the committee, Mr. Stevens, who claim that the banks are making graft out of this thing.

Mr. Jaques: There is no graft at all.

Mr. Cleaver: Excessive profits.

Mr. Jaques: This very committee gave them the power five years ago to do it. There is no graft about it.

Mr. Cleaver: Coming to my next point. There are many people in Canada to-day who believe that there is an easy way out of our present economic trouble, that the banks and the big interests are profiting by our present conditions and are withholding the easy remedy from the masses for their own selfish interests—

Mr. Jaques: Right.

Mr. Cleaver: I suggest that many of our present troubles have been brought about through unfair practices by big business in the past, but in my opinion to say that either the banks or big business institutions are now profiting as the result of the continuance of the depression is to disregard the facts. The predatory actions of big business occur in boom times. In 1927, 1928 and 1929 was when our troubles were brewing. I am old-fashioned enough to believe that the remedy nationally is little different to the remedy personally. In our own personal lives thrift and hard work is the only way out of financial difficulties.

Mr. Jaques: What do you call thrift?

Mr. Cleaver: To work hard, use care in spending and pay your debts may not be a very attractive program, but it does ultimately bring real results. I believe that the same rule would work equally well nationally.

Now, what would happen, Mr. Towers, if our government should decide to finance, say, one-half of one year's expenditures by the issue of what we have commonly called debt free money?

[Mr. Graham Ford Towers.]

Mr. TOWERS: I think that there too, Mr. Cleaver, if you will allow me, it would be best to put that in the form of a memorandum with the necessary illustrations in the form of figures.

By Mr. Cleaver:

Q. That will be quite agreeable to me. Take say, $250 million. If we were to take $250 million and hand that out as currency instead of raising the money by direct taxation or borrowing——A. Taking place in one year, 50 per cent of the expenditures in one year.

Q. Yes; and I will ask you to follow it through, indicating as clearly as you can what would happen to our individual investors and our institutions that are depending upon interest rates for their very existence, and our municipal sinking funds and the like?—A. Right.

Q. Then coming to the question of our domestic currency and the tie-in with foreign borrowing, am I right in my conclusion that foreign borrowing must necessarily take place when our foreign trade shows a debit balance?—A. Foreign trade and other transactions, that is services.

Q. Other allied transactions?—A. Yes.

Q. Then when we have a favourable balance of trade existing over a period of years I take it that as far as our domestic currency is concerned we can do whatever the majority wish done?—A. I am not quite sure that I follow that. If there is an unfavourable balance on current account—and I include in that not only merchandise and freight but tourist trade and all forms of services which we either give or receive—if after taking all those transactions into account there is a balance against us, obviously that is an amount which we owe to the foreigner which may be outstanding in the form of commercial credit or it may be covered by long term borrowing. Conversely, if the balance is in our favour, as it has been quite extensively for some considerable period of time, and that places foreign funds in the hands of Canadians, they have a choice, speaking of the people as a unit, of allowing those foreign funds to accumulate in foreign banks or of using them to purchase foreign securities or other foreign assets, or else to purchase Canadian securities which are held by foreigners. As a matter of fact, the tendency quite naturally is to do the latter; hence the repatriation of the last five years.

Q. But so long as we do maintain a total over all favourable balance of trade, then I suggest to you that there are no foreign restrictions at all as to what we do with our domestic currency?—A. I think you can always do what you want with the domestic currency.

The CHAIRMAN: If it is advisable to do it.

By Mr. Cleaver:

Q. So long as we have a favourable trade balance or so long as we have sufficient gold with which to settle an unfavourable trade balance, it is abundantly clear then that so far as our domestic commercial life is concerned we are our own masters?—A. Yes.

Hon. Mr. STEVENS: Mr. Cleaver, you have used repeatedly the term balance of trade. I am quite certain that the governor is thinking of balance of settlements, including services, interest and all, which is a vastly different thing.

Mr. CLEAVER: Thank you, Mr. Stevens. I think, perhaps, I should at the risk of wearying the committee, elaborate a little on that point which you have raised.

By Mr. Cleaver:

Q. Mr. Towers, what are the features which enter into balance of payments?—A. The tables which we publish from time to time in our statistical summary, I think, indicate that fairly clearly. On the credit side, the main

item is naturally the balance in our favour as a result of merchandise transaction. That is the excess of merchandise exports over merchandise imports.

Q. Yes.—A. In the so called invisible item we have net tourist receipts as a balance in our favour. Subject, of course, to the question of accurate estimates there, we are certain it is a substantial balance in our favour. As items which we have to pay, there are interest and dividends. The amount of interest which we have to pay abroad has been going down for a number of years as foreign debt has been repatriated.

Q. You are referring to interest and dividends payable?—A. To foreign holders of our securities.

Q. To foreign holders of any securities.—A. Governmental, private or anything else, the interest section of that item has been going down over a period of years as foreign debt has been repatriated, or perhaps refunded at lower rates. The dividends part of it has been going up, perhaps due more to an increasing foreign interest in our gold mines than to any other factor.

Q. Before you leave that point: in computing that amount you would only include securities held by non-residents; you would not include securities which are held by Canadian residents and which securities have optional places of payments?—A. No, these are Dominion Bureau of Statistics figures, and they would not include optional pay securities owned by Canadians. It is a question of domestic or foreign ownership.

Q. Optional pay securities should not be included. That is simply a matter of contract and simply varies the amount which the creditor has to pay, but makes no difference in the balance of international payments.—A. That is quite right. Incidentally, that interest and dividend item for 1938 is estimated at $242 million.

Q. Adverse?—A. Adverse. The tourist trade was estimated at $145 million in our favour net. Freight charges are estimated at $20 million.

Hon. Mr. Stevens: That is too low.

Mr. Towers: Against us.

Mr. Cleaver: Against us?

Mr. Towers: Yes. Miscellaneous services, $35 million.

Mr. Cleaver: Which way?

Mr. Towers: Against us. Now, the miscellaneous figure includes such items as advertising royalties, moving picture royalties, earnings of Canadians working in the United States and various other things.

Hon. Mr. Stevens: Insurance?

Mr. Towers: Insurance premiums would be in there to.

Hon. Mr. Stevens: In miscellaneous.

Mr. Towers: That is in miscellaneous, yes. The estimated sum total in 1938 of the things which I have mentioned up to now is $185 million in our favour. That is the balance on current account, including everything but capital movements. Now, so far as those who make up these estimates can tell from the information which they receive, that $185 million in our favour was used, to the extent of some $60 million for repatriation of Canadian securities held abroad—that is based on new issues or retirements of Canadian securities. In other security transactions, that is dealings between Canadian nationals and others in securities which are in existence on the market and presumably are still in existence—the come and go of daily transactions—Canada apparently sold $27 million on balance. Other capital movements were against us to the tune of $127 million. Now, those other capital movements consist for the most part of movements between branch plants and their parents.

Q. An adverse movement of $127 million?—A. Adverse in this sense: a movement from a branch plant to its parent.

[Mr. Graham Ford Towers.]

Q. That would indicate expansion in branch plants, would it not?—A. No. A movement between a branch plant and its parent may consist of the transfer of the branch plant's profits to its parent. That comes in under this heading rather than under the heading of dividends, although in effect it is the same thing.

Q. What would be the figure if branch plants were expanding—if new plants were being built?—A. Then I would say you would find capital coming in from the parent, and the movement instead of being an outward movement of money would be an inward movement of money.

Q. We would be receiving foreign capital and we would be setting up an adverse balance, or a balance just the opposite to repatriation balance?—A. Yes. In the earlier years of branch plant development no doubt that took place on a substantial scale.

Q. In your statement you omitted to give me the merchandise balance.—A. The merchandise balance, including gold, was $338 million in our favour.

The CHAIRMAN: What would it be excluding gold?

Mr. TOWERS: $181 million excluding gold.

By Hon. Mr. Stevens:

Q. Why not put that statement on at this stage; it is a standard statement, is it not?—A. Yes.

Mr. CLEAVER: I think that would be a good thing to do.

Mr. TOWERS: We will do that.

Hon. Mr. STEVENS: It will make the matter clear.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS: 1937-38

Dominion Bureau of Statistics

Millions of dollars	1937 Exports or credits	1937 Imports or debits	1937 Net credit Net debit	1938* Exports or credits	1938* Imports or debits	1938* Net credit Net debit
Current account						
Merchandise	1,009.7	796.4	213.3	847.0	666.5	180.5
Non-monetary gold	145.1	.1	145.0	156.5	....	156.5
Total merchandise and gold	1,154.8	796.5	358.3	1,003.5	666.5	337.0
Invisible items						
Tourist trade	294.7	124.4	170.3	267.0	122.0	145.0
Interest and dividends	78.8	325.0	246.2	70.0	312.0	242.0
Freight	111.7	137.2	25.5	101.0	121.0	20.0
Miscellaneous services	25.2	63.9	38.7	24.6	59.8	35.2
Total invisible items	510.4	650.5	140.1	462.6	614.8	152.2
Total current account	1,665.2	1,447.0	218.2	1,466.1	1,281.3	184.8
Capital account						
New issues or retirements of Canadian securities	89.5	177.9	88.4	89.9	150.0	60.1
Other security transactions	506.6	511.4	4.8	367.0	340.0	27.0
Other capital movements	24.0	129.6	105.6	....	127.0	127.0
Total capital account	620.1	818.9	198.8	456.9	617.0	160.1
†Balancing item			19.4			24.7

*Preliminary. †This balancing item measures unavoidable errors and omissions in current and capital account.

ESTIMATED CANADIAN BALANCE OF INTERNATIONAL PAYMENTS: 1927-38

NET RECEIPTS OR CREDITS: NET PAYMENTS OR DEBITS

Dominion Bureau of Statistics

Millions of dollars	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938*
Current account												
Merchandise	139	131	131	122	17	74	147	148	193	322	213	181
Non-monetary gold	11	13	36	22	43	61	79	110	117	131	145	157
Invisible items												
Tourist trade	130	168	188	179	174	155	66	82	119	141	170	145
Interest and dividends	211	221	260	289	280	262	224	212	209	234	246	242
Freight	12	19	39	32	25	28	22	28	14	18	26	20
Miscellaneous services	8	16	28	25	21	34	34	26	29	34	39	35
Balance on current account	49	55	234	267	125	35	12	75	177	309	218	185
Capital account												
New issues or retirements of Canadian securities	141	7	133	290	9	1	26	58	154	164	88	60
Other security transactions	184	188	105	13	24	16	51	9	51	8	5	27
Other capital movements	39	99	126	38	62	6	51	67	70	98	106	127
Net capital movement	4	82	154	315	47	11	27	116	174	254	199	160
Monetary gold	15	77	38	20	47	13	8	...	...	...	...	...
†Balancing item	59	50	42	29	31	34	7	41	3	55	19	25

*Preliminary. †This balancing item measures unavoidable errors and omissions in current and capital account.

By Hon. Mr. Stevens:

Q. There are two uncertain factors—freights and tourists—it is an estimate?—A. There are other things too which are necessarily estimates. The Dominion Bureau is constantly enlarging its sources of information. I think it has much more information now in respect to branch plants than it had some years ago.

Q. Of course, I think the estimates of carriage charges, freight, is too low. I made a very careful study of that some years ago.

Mr. DEACHMAN: That is a net estimate.

Hon. Mr. STEVENS: Yes.

Mr. DEACHMAN: There were large earnings the other way.

Mr. TOWERS: There is something finally that I should add to complete that statement, although it will show in the table I have put on the record. There is a balance for errors and omissions; in other words, something, in spite of the best efforts of the bureau in collecting information, which they cannot account for.

The CHAIRMAN: Hidden reserves.

By Mr. Cleaver:

Q. Mr. Towers, coming to the question of the production of goods, what are the two component parts which enter into the production of goods? Are they not labour and capital?—A. Yes.

Q. And capital, whether it is obtained from savings or borrowings, is a matter of credit?—A. One might go a little further than that and say that it is a matter of certain people abstaining from consumption, to leave men and materials free for capital development. That is a very poignant question nowadays in countries such as Germany, and probably it will become so in the United Kingdom.

Q. If the proper balance is maintained between the profits or the wages which each of these two groups receive, there should be an increase in the standard of living with a further increase in our ability to produce?—A. Yes.

[Mr. Graham Ford Towers.]

Q. Why does any man work? Is it not so that he can earn money with which to buy necessities and luxuries of life?—A. Yes; there will also be rare cases of those who do it to keep out of mischief.

Q. Now, that being so, until every man's wants are reasonably well satisfied, under a proper set-up we should have no unemployment?—A. That is right.

Q. And when a machine is invented that will do the work of 1,000 men those 1,000 men are then free to make some other type of goods which we all want to buy?—A. Yes.

Q. So that the invention and manufacture of machinery in the way of labour saving devices does not necessarily bring about unemployment?—A. No, it does not.

The CHAIRMAN: Mr. Cleaver, are you taking into account the mobility of labour?

Mr. CLEAVER: I am not, Mr. Chairman; I am looking to the long term view. I quite freely admit that the introduction of machinery causes very drastic unemployment for a short time, but I am suggesting—

The CHAIRMAN: And for a life time, very often.

Mr. CLEAVER: I am suggesting that under a proper set-up the minute a machine is invented which will do the work of 1,000 men those men are free and are at liberty to make other goods which we want.

Mr. JAQUES: Why don't they?

Mr. CLEAVER: I am coming to that.

Mr. DEACHMAN: You have only to consider what is now happening in England. They might want to make more aeroplanes and they might have to transfer men from the production of cotton textiles to aeroplanes and that transfer would be over a period of some considerable time.

Mr. CLEAVER: Yes, I agree. The standard of living goes down in any country when non-productive expenditures are made.

Mr. JAQUES: The evidence is to the contrary; it is going up.

Hon. Mr. STEVENS: I suggest you use the words "ought not to," instead of "does not."

Mr. CLEAVER: Yes, right.

By Mr. Cleaver:

Q. So that, Mr. Towers, if the proper balance of distribution of wealth is maintained between capital and labour then the general public at all times would have enough money with which to buy the goods produced?—A. You are speaking of the world as a whole?

Q. Yes, or any nation as a whole.—A. A nation, of course, can be severely affected by markets to which it has been accustomed to sell, refusing to buy its products.

Q. Yes. In order that there might be no confusion, could we then look on Canada for the purpose of this analysis as a self-contained nation not either buying or selling abroad but simply a self-contained unit?

Mr. QUELCH: Would you not admit that that depends to a large extent on whether or not labour is used for the production of capital goods or the consumption of goods? It depends upon the relationship between the one and the other.

Mr. CLEAVER: Yes, I am coming to that too. Then, with regard to the question of unemployment insurance, which is an allied problem to this problem of capital and labour, to the extent that the government contributes to an unemployment insurance fund, is that not just in effect a dole?

Hon. Mr. STEVENS: Just a what?

Mr. CLEAVER: A dole, a gift.

Mr. JAQUES: Where does it come from?

Mr. TOWERS: I am not quite sure that I see all the implications there.

Mr. CLEAVER: Let me give you a concrete instance. If we should start an unemployment insurance measure in Canada, and provide that the dominion government should contribute one-third to the fund, industry should contribute one-third to the fund and labour one-third to the fund. The extent of the government contribution is purely and simply a gift.

Mr. TOWERS: It, of course, depends on the source from which the government obtains the money. If they obtain it from a wage tax and if that wage tax was paid by and large by the people who were going to be beneficiaries of unemployment insurance, then I do not suppose one could regard it as a gift. If, however, it was impossible to follow through and say that is exactly the case, then, I suppose, it becomes one of the government services contributed for the good of the nation as a whole.

The CHAIRMAN: I understood Mr. Cleaver's suggestion was that labour had itself made its contribution out of wages. If there was a different tax on wages, that would be double taxation.

Mr. CLEAVER: What I suggested was this. I think the extent to which any government contributes to an unemployment insurance fund it is purely and simply a gift or a dole. Now, you will quite frankly admit, Mr. Towers, that labour makes just as important a contribution to the production of goods as does capital.

Mr. TOWERS: Yes.

Mr. CLEAVER: And you also freely admit that down to the present time labour had practically no representation on boards of directorates and management?

The CHAIRMAN: Oh, no.

Mr. TOWERS: It has not been extensive.

The CHAIRMAN: Labour's voice in management is fairly extensive.

By Mr. Cleaver:

Q. Would you not think that if labour had a fair representation on the management of industry that it would increase the efficiency of industry?—A. That would be a very broad statement to make—I mean, it would depend on the individuals concerned, would it not?

Hon. Mr. STEVENS: He means regular councils.

The CHAIRMAN: Yes. Most large concerns have workmen's councils to confer with the management.

Mr. JAQUES: What good do they do?

The CHAIRMAN: Many of them, at any rate, have workmen's councils.

Mr. CLEAVER: Approaching the problem from another angle, industry today does not question the fact that it is required to pay taxes, to pay minimum power contracts, to maintain its machinery and plant equipment and all that sort of thing whether the plant is running or whether it is idle.

Mr. TOWERS: Oh, I could not quite agree with that. There are numerous cases where a plant has been allowed to run down severely; that is particularly true of 1930, 1931 and 1932.

Mr. CLEAVER: Let us take it one at a time.

By Mr. Cleaver:

Q. Industry certainly has to pay its taxes on land and any tax which is in existence on the equipment whether the plant is idle or operating?—A. Yes, they will struggle to pay taxes to avoid losing the property. In certain cases, of course, tax bills have just accumulated; they could not pay them.

Q. Yes, but the obligation is there still?—A. Yes.

Q. And if they are the users of power they must enter into contracts agreeing to pay for a certain minimum monthly load. That would be true especially in regard to mines. I understand Lakeshore today is paying at the rate of $60 per horsepower under a contract entered into years ago.—A. Perhaps.

Q. Now, as to all of these things, industry does expect to pay, whether the plant is idle or not, and yet when it comes to labour, the most important part of its set-up, when the plant becomes idle the men are simply thrown out of work and industry assumes no responsibility.

Mr. Jaques: They go on relief.

Mr. Towers: That is right, of course, subject to efforts which have been made from time to time to divide employment—

By Mr. Cleaver:

Q. Running part time?—A. Running part time; various efforts have been made in different cases along this line.

The Chairman: And subject also to the fact that the shareholders are not remunerated; therefor neither capital nor labour are drawing from industry.

By Mr. Cleaver:

Q. My suggestion is that it would be much sounder to say to capital that you must assume one more overhead and be responsible for a quota of labour rather than to set up an unemployment insurance scheme whereby large doles or gifts would be contributed by the government.

Mr. Lacroix: Yes, but where does the money come from?

Mr. Jaques: From the prices.

Mr. Lacroix: If the manufacturer is not producing how can he get the money to do that?

Mr. Cleaver: My suggestion is this, Mr. Lacroix, that every employer of labour has to pay the interest charges on any machines which he buys and he has to pay all of those other costs whether the plant is running or not. Now, that same industrialist has to use labour and I cannot see why labour should be put on any other different basis. I believe it would be preferable if we were to face facts and say to all employers of labour, we will let you indicate the quota of the men that you want, but once having indicated that quota of men for that year, you are responsible for them; and then if that industry requires to use more men than its quota, I would charge that industry a surtax on the extra labour employed above the quota, and that would go into a fund to maintain men out of work. I give you one example. Take the National Steel Car Company in Hamilton. They will get a very large order from this government or some other government for the production of a quantity of rolling stock to be delivered within a certain limited period of time. They will put on three shifts and take on as many as 5,000 new men and in four or five months time, or a year, the order is completed and the men are all out of work again. I am suggesting an industry that enters the labour market in that way should pay a heavy premium for the labour which it employs. That, I agree, would in turn go into the cost of producing the goods and eventually it would reach back to the source of the order, and that order would not be let for the goods to be furnished within such a limited period

of time. In other words, we would level out the peaks and the depressions in the employment of labour.

Mr. Lacroix: You take as an example the National Steel Car Company. That company probably has control over their selling prices because they are manufacturing a particular product. It is likely they have a control over their selling prices, but you cannot apply that to all manufacturers in Canada.

Mr. Cleaver: No. I think perhaps I cover that in my remarks, and if you will permit me to come to it in a moment, you will get my point. It is my contention that the employer of labour who carries his operations in a reasonably continuous manner, employing men the year round, makes a far better and more substantial contribution to the public good than does an employer of labour who enters the market at certain periods of the year, often at the period of the year when there is a scarcity of labour, and that something should be done to encourage industry to distribute their operations over the entire year; and that if we set up an unemployment insurance scheme on the same basis as the present British scheme, whereby every employer of labour simply makes a contribution into the fund on a percentage of the total payroll and no discrimination is made between the employer of labour who employs his hands the year round and the employer of labour who simply works part time, we will be setting up something which will really add to the cost of government in Canada.

Mr. Lacroix: Perhaps that may be so to a certain extent, but the manufacturer can pay only when he sells his goods, and he can employ people only when he can sell his goods. When he cannot sell his goods how can he employ people? Take the paper industry, for instance. To-day it is running at 33 per cent capacity. How could they pay 100 per cent labour when they are running at only 33 per cent capacity?

Mr. Cleaver: Looking at the problem from the national standpoint—

Mr. Lacroix: Even so, you have to find the money to pay.

Mr. Cleaver: And from the standpoint of human welfare, you know just as well as I do, if labour is to be contented, happy, and to have a decent living there must be a regular pay envelope coming in once or twice a month.

Mr. Lacroix: How can you expect a manufacturer to raise new capital to-day to pay these expenses when their capital stock is already wiped out?

Mr. Cleaver: I doubt very much—

Mr. Lacroix: There are a few firms who control their selling prices and who have a monopoly of certain merchandise who may be able to do that; but take an industry like the woollen industry. Last year they ran at a rate which gave them a 4 per cent gross profit. This year they are running at a rate which will give them 4 per cent loss. How can they absorb the things you mention?

Mr. Towers: If I may interject here, it does seem to me that no individual manufacturer could take on a rigid commitment in that respect irrespective of whether he could find employment for the men or market for the goods. Surely, when the national contribution is made in the way that you suggest, it comes in taxes from those manufacturers and labour who still find that they can produce and are in employment. In other words, from the proceeds of their production and employment they contribute a certain amount to those who cannot find employment, and the collection of the contribution in the form of taxes is really the only practical way of doing it, because you cannot get that tax or contribution from industry which is not operating. But I think, if I may just go on for a moment, I know the type of thing you have in mind. It was hinted at or referred to in a letter from A. A. Berle to the—I think they call it—Temporary National Economic Committee of the United States. He did refer there to the wastage involved or the burden involved to the govern-

[Mr. Graham Ford Towers.]

ment in the case of industries which were highly seasonal in character. He referred specifically to the automobile industry. Perhaps he was thinking of an industry which even in good years when it was making good profits, gave employment only for a portion of the year.

Mr. CLEAVER: Yes.

Mr. TOWERS: Now, if the men thus given employment earned as much on the average in their shorter period as other people earned in a full year, then perhaps that particular industry was paying its way. Perhaps in that case it should withhold some of the—

Mr. CLEAVER: Now you are coming to it.

Mr. TOWERS: —wages, and keep on paying during the unemployment periods to even the thing out. That would be the case of an industry which was profitable and which did pay its wage earners sufficient, but which on a basis of, shall we call it paternalism, enforced certain savings for a period of the year to provide regular cheques during the balance of the year.

Mr. CLEAVER: One local illustration would, I think, clarify my point. Let us take the building trade. In the building trade carpenters are paid 85 cents an hour in normal times. But that same carpenter doing equally technical or equally skilful work in a planing mill on cabinet work, will only be paid 50 cents an hour, the difference or the disparity in the wages being brought about by the fact that the carpenter on construction knows he is going to be out of work four or five months in the year; but the man in the planing mill or in the cabinet shop knows he is going to be employed the year round.

My suggestion would be this: instead of putting on a pro rata employment insurance tax, that different rates should be set up in different branches of industry depending upon the unemployment hazard; and that in the construction trade where you know you are going to have a high unemployment hazard, the rate would be proportionately higher than the rate where there is practically no hazard of unemployment. That, I take it, is what you had in mind, and in that event you say the man in the construction trade under that set-up would receive less money per hour while he is actually working, but would be paid when he is not working out of the fund?

Mr. TOWERS: I did not make that as a suggestion, because I really do not feel qualified to go into the subject. I was just mentioning some of the developments in the United States.

Mr. CLEAVER: Now, Mr. Chairman, I think that pretty well concludes my examination of the governor, subject, of course, to the answers to questions being filed. I should like at this stage to express my personal thanks to Mr. Towers for the very helpful way in which he has answered my questions. I have now just a few general remarks. Other members of the committee have in turn expressed their views on the evidence. I would ask to be permitted just to take a few minutes of the time of the committee to express my views. I do not pretend to hold any special qualifications which would render my personal views of any value at all, and I therefore, where possible, give reasons for them.

Our economic condition in Canada is admitted to be unsatisfactory. This committee has been making a study of the operations of the Bank of Canada presumably to determine, if possible, as to whether our central bank is functioning to the full extent of its power to bring about an improvement of this unsatisfactory condition.

The proposition has been advanced by some individual members of the committee, and by one group of the committee—I refer to the Social Credit group—that possible monetary action could be taken by the central bank—and has not been taken—which would bring about a remedy.

The Social Credit group contend that the giving away of debt-free money which they term as a national dividend issue, would help to solve the problem. Private members of the committee, headed by Mr. McGeer, Mr. Tucker and others, advocate that a scheme of national construction work to be financed by the government issue of debt-free money would be an effective remedy. There are others who believe that construction work of a national character, financed in an orthodox manner would be the answer. As to these three different contentions I submit that the suggestions would be clarified if they were resolved into their two natural divisions:

(1) Is the issue of large blocks of debt-free money of any value to the economic welfare of the country?
(2) Would national construction projects improve economic conditions and, if so, what are the best types for this purpose?

As to the first proposition, namely the issue of debt-free money for public financing, this very alluring proposal is again seriously advanced notwithstanding the very unfortunate results which have attended its application in every country where it has been tried in the past. History tells us that it leads to disaster, but in view of the various arguments which have been advanced by Mr. Jaques and others that advances in science have mostly come through a disregard for established orthodox beliefs, thereby reasoning that our reliance upon the results of history is *prima facie* an evidence of error, I should like to see sufficient reasons incorporated in our report to demonstrate why the issue of debt-free money in excess of the normal quantity of money necessary for the carrying on of the internal trade of the country is of no assistance and is harmful. This in my opinion has been clearly demonstrated by the governor of the Bank of Canada in his evidence.

Money is not wealth but is simply the title deeds to wealth. Money is a legalized token through which the holder can acquire actual wealth. Experience tells us that only a sufficient quantity of this token should be issued as is necessary to carry on our commercial trade. The value of those tokens is only maintained through their scarcity, and through the fact that no one can obtain those tokens without giving value for them by way of services, or by the surrender of real wealth. It is quite true that in the first instance these tokens are issued by the Bank of Canada at simply the cost of printing plus 25 per cent gold reserve. It is frankly admitted that the gold reserve is not a necessary feature but is provided for window dressing—to give the people confidence. The real feature is that someone must issue them and must limit the quantity to the actual needs of the purpose for which they are issued.

There is an orthodox manner of increasing credit and driving down interest rates which is now in actual use and which is known as the present easy money policy. Having in mind our entire economic structure, debtors on the one hand and on the other hand security holders, which would include individuals, municipal sinking funds and financial institutions dependent for their existence on interest rates, it necessarily follows that care must be taken to hold a proper balance between these two contending groups.

Now, coming to the second division of our problem, and that is in regard to the construction of national projects of a revenue producing character, in order to employ our idle labour, it is my opinion that in times of depression when we have a surplus of labour, all necessary and productive national works should be undertaken as far as possible in order to conserve wealth by putting our men to work, but far more important than this, in my opinion, is necessity for every possible action being taken to stimulate and assist industry. It is generally accepted that the only cure for unemployment is the placing of men in profitable employment in industry. When the government employs men, the men are still

out of work when the government project is finished, whereas when men are put to work in industry there is continuity to the employment.

Now, coming to the question of shortage of buying power, in my opinion the present shortage of buying power in the hands of the general public is brought about by two main causes:

(1) Fear, plus an unfair system of land taxation is retarding expenditures in capital goods. One only requires to look at the construction figures to find confirmation for this statement. We have a shortage of over 100,000 homes in Canada and notwithstanding the impetus to the home building industry brought about by the National Housing Act we are still building less than 60 per cent of our annual requirements. In the other construction trades our annual figures are still 150 millions annually below normal. I believe that all possible assistance should be given to industry. The incentive given to industry by the 10 per cent reduction in income tax with respect to capital expenditures for capital goods should have a stimulating effect though I doubt if it is drastic enough. I would suggest that the sales tax and the income tax on industry should be removed altogether and that in place of these taxes we should impose properly graduated personal income tax over the entire field. If the answer to our problem of unemployment is to stimulate industry would not the removal of taxes upon industry do this? The benefits of a heavy income tax would be twofold. In the first place there is no fairer tax and in the second place a direct tax of this nature would make everyone tax conscious and would lead to economy in government. The whole pressure to-day upon a federal member is to spend government money. An income tax would entirely reverse this trend.

(2) Now, in my opinion, the second main cause of our present shortage of buying power in the hands of the general public is our own fault. It arises through artificial interference with natural laws of competition and of supply and demand. By big business practises, by monopolies and cartels, by tariffs and by other such means we have permitted a few people to take to themselves more than their fair share of the annual wealth produced, thus causing a shortage of buying power in the hands of the masses. A couple of illustrations will suffice: Par value of $1,000 Imperial Oil stock in 1914 is today worth just over $20,000. This increase in capital stock has been brought about by the issue of bonus stock and by stock splitting.

1915 share for share bonus was issued;
1919 stock was split four for one;
1925 stock split four for one;
1929 stock split four for one;

with the result that 10 $100 shares in 1914 now represents 1,280 $25 shares. In addition to this capital increase dividends have been paid. The annual dividends now being paid on what originally represented $1,000 par in 1914 are as follows:—

1935	$1,600
1936	$1,600
1937	$1,600
1938	$1,600

No one can prove that the general consuming public and the labour employed have had a fair share of the profits, else this tremendous capital profit could not have occurred.

Let me take another illustration. Dominion Textile Company was incorporated in 1905. Mr. Howson, accountant to the Royal Commission, computed that on this initial investment of $500,000 in common stock, the capital had increased in value to over $14,000,000 and that in addition over $14,000,000 had been paid in dividends, a total return of over $28,000,000 on $500,000.

I fully appreciate that this is all now "water under the bridge" and that nothing can be done about it, but I do urge that we should profit by the lessons of the past and that it should not be permitted to occur again.

No company should be permitted to water its stock, nor should it be permitted to issue bonus stock in any way. The only way in which the records can be kept clear is to provide that all profits paid to shareholders should be paid by way of cash dividends. In addition to bringing about an unequal distribution of wealth, this practice of stock splitting and stock watering also encourages over-capitalization of companies, which in turn increases production costs and limits the ability of the company to compete for trade on world markets.

Now, coming to the agricultural problem—

Mr. QUELCH: May I ask, does this represent the views of the party?

Mr. CLEAVER: No; I shall make it very clear that they are simply my personal views, based largely on the evidence which has been given before this committee. Other members have advanced their personal views and I am giving mine for what they are worth.

Mr. QUELCH: You asked us to submit a statement which represented the views of our group. I was wondering if you were prepared to do the same thing, or whether you could not?

Mr. CLEAVER: I mean that—

Mr. QUELCH: Is it not possible for the Liberal party also to prepare a statement representing the policy of their group, or are they split up so much that each one has a different view?

Mr. CLEAVER: I take it that the Liberal party is now in power, and what we have is the policy of the party. Now, in so far as my comments differ from what we are doing, they are not government policy, they are my policy. I take it that is a fair answer to your question. Mr. Chairman, my remarks in regard to the farm industry will take perhaps a little longer than the committee would care to wait, and it is now 1 o'clock.

The CHAIRMAN: What is your pleasure as to our next meeting?

Mr. KINLEY: The mortgage bank is being discussed in the house and may be discussed here.

The CHAIRMAN: I think under the circumstances we had better adjourn until to-morrow, at 11 a.m.

The committee adjourned at 1 p.m. to meet again to-morrow, May 24, at 11.15 a.m.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 22

WEDNESDAY, MAY 24, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

WEDNESDAY, May 24, 1939.

The Standing Committee on Banking and Commerce met at 11.15 a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Cleaver, Coldwell, Deachman, Donnelly, Dubuc, Fontaine, Hill, Jaques, Lacroix (*Beauce*), Landeryou, Macdonald (*Brantford City*), Moore, Quelch, Ross (*St. Paul's*), Stevens, Taylor (*Nanaimo*), Tucker, Vien, Woodsworth.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Examination of Mr. Towers was continued.

At 1 o'clock the Committee adjourned until to-morrow, Thursday, May 25, at 11.15 a.m.

R. ARSENAULT,
Clerk of the Committee.

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MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

May 24, 1939.

The Standing Committee on Banking and Commerce met at 11.15 a.m. The chairman, Mr. W. H. Moore, presided.

In Attendance: GRAHAM FORD TOWERS, Governor of The Bank of Canada.

The CHAIRMAN: Gentlemen, we are ready to proceed. Go ahead, Mr. Cleaver.

Mr. CLEAVER: Mr. Chairman, I now have only a few remarks which I would like to direct toward our agricultural problem, and those remarks will not take over ten minutes, and then with the exception of the two questions which have been left open, I am through.

The CHAIRMAN: I hope your remarks are going to bear on the subject of our reference.

Mr. CLEAVER: I say that I have no further questions other than the two that are now on the record.

The CHAIRMAN: You wandered rather afield yesterday.

Mr. CLEAVER: Yes, and I may wander a bit further afield to-day, Mr. Chairman, but I will not wander for long. During the past, agricultural prosperity in Canada has been rather closely tied to wheat. Owing to what has been happening in many of the countries which formerly were customers for Canadian wheat, it would appear that for the present, in any even, every effort should be made in Canada to stimulate and encourage other types of agricultural production. The $50,000,000 cost of the meagre wheat bonus of fixing the price at 80 cents per bushel last year is to me rather conclusive evidence of this contention.

Mr. QUELCH: Why do you say $50,000,000?

Mr. CLEAVER: Well, I believe that at the end of last year if wheat had then been sold the loss would have been $50,000,000, and while we may reduce that loss by holding the wheat and gambling with it I take it that we should face these facts—

Mr. VIEN: The Minister of Finance said $25,000,000, estimated, and it might be more.

Mr. CLEAVER: Is not that the hoped for loss rather than the actual loss?

Mr. VIEN: Exactly. It is an estimate.

Hon. Mr. STEVENS: Surely, we are not going into this long wheat question which we discussed in the house for weeks?

Mr. CLEAVER: No, I am simply giving that as a reason for the statement which I am going to make.

Hon. Mr. STEVENS: These are not questions. I thought you were going to question Mr. Towers on this.

Mr. CLEAVER: I have directed quite a few questions to the governor. Other members of the committee have been given the privilege of expressing briefly their views in regard to the three outstanding problems facing this country, and I promise not to be long. The main problem facing the farmers of Canada is that of markets for their produce at a profitable price. As to all products which we export the prices obtained are world prices over which we

have no control, so that the extent to which any government can assist the farmer is necessarily restricted. Through the renewal of existing trade agreements and through the negotiation of new trade agreements, markets have been acquired for all of our surplus farm products. Also a partial measure of relief to farmers in cost of production has been obtained through reductions in tariffs on imports, but existing trade policies of other countries would seem to preclude any great improvement along these lines in the immediate future. Some people believe that a further reduction of tariffs by Canada without receiving a corresponding reduction in tariffs permitting the freer entry of our goods into those countries would help but the majority of opinion would appear to be that a policy of this nature would place our industries at a very unfair disadvantage and would be of no substantial advantage to our producers.

There is much, however, that can be accomplished in the field of orderly marketing and the reduction of marketing costs. During the past Canadian producers have only exported when we had a surplus and in addition to this have not at all times exported the type of produce which the foreign markets demanded. Our whole policy in regard to continuity of export supplies should be reversed. If we are to retain our foreign markets we must see that our customers receive their requirements regularly and if at any time we have a shortage it is the domestic market which must be the cushion. The marketing branch of the Department of Agriculture is now taking active steps to ensure continuity of supply to markets which we have acquired. The importance of supplying produce to meet the requirements of the consumer is now fully recognized. One illustration will suffice; by using good business practises we have increased the export of Canadian bacon to Great Britain from $2,000,000 in 1932 to $33,000,000 in 1938. A similar effort is now being made in regard to beef. Regular monthly shipments of baby beef are now being sent to Great Britain, and the results obtained thus far are very gratifying.

Hon. Mr. Stevens: Gratifying? There was a loss of $23,000 on the transaction.

The Chairman: Mr. Cleaver, I think you are going afield. If all the members of the committee were to indicate their consent by silence it might not represent their views.

Mr. Cleaver: I will leave the rest of that, Mr. Chairman. In times of stress we are often compelled to do things from sheer necessity which turn out to be very beneficial. It is my opinion that the present distressed condition of agriculture will compel the establishment of co-operative movements for marketing farm produce. When Denmark and the Scandinavian countries had their trying times, co-operative movements sprung up from which they are reaping untold benefits to-day. Mr. H. S. Arkell of the Department of Agriculture in a recent speech given before the dominion conference of agriculture held at Montreal gave some very interesting information regarding co-operative marketing organizations in those countries.

The Chairman: Mr. Cleaver, I really think you must stick to the reference.

Mr. Cleaver: Mr. Chairman, I am answering a statement made by Mr. Howard, also a member of this committee, the other day with regard to fluid milk.

The Chairman: I have been trying to keep, as far as I could, the discussion at least to the monetary side of the depression. I quite appreciate I have not been successful, but I do not think we should go too far.

Hon. Mr. Stevens: If we were all to read into the record our views on agriculture and other subjects, why there would be no end to it. As I understood the function of this committee, it was to question and examine Mr. Towers who is giving his time, certainly without reserve, to questions apper-

taining to the function of the monetary policy in regard to general economic conditions, and I think most of the members have stuck pretty closely to that. It is true that occasionally one of the members would give a rather lengthy expression to a view, but Mr. Cleaver, with all due respect—and I do respect him very highly—is reading into our evidence on banking a personal dissertation upon agriculture. With some of the things he has said I would not agree, while with others I would; but if we are all going to place on the record lengthy dissertations concerning our private views, I do not know where we are going to end.

Mr. BAKER: The whole essay is away outside of the reference for the consideration of this committee.

Mr. CLEAVER: I shall be pleased, Mr. Chairman, to bow to your ruling, and to the wishes of the committee, and I will delete opinions, and simply restrict myself to placing on the record some facts of actual prices in contradiction of the evidence which is already on the record.

In Helsingfors the farmers receive 80 per cent of the retail price for milk to the consumers of butter.

With respect to cheese they receive 60 per cent.

Mr. JAQUES: They do not eat much butter.

Mr. CLEAVER: With respect to the fluid milk 70 per cent of the retail price of fluid milk goes to the farmers. With respect to eggs, 80 per cent; pork, 80 per cent; beef, 70 per cent.

Mr. LANDERYOU: Does the figure of 80 per cent with respect to eggs hold good in the case of farmers in western Canada selling eggs at five cents a dozen?

Mr. CLEAVER: I am giving you the prices which pertain in a country where the co-operative movement is in effect for the marketing of farm products.

Mr. JAQUES: They do not eat the butter, they eat oleomargarine.

Mr. CLEAVER: Just let me take the fluid milk prices in Canada. We were told the other day by a member of this committee that the dairies were losing money in the distribution of milk and that the only profits they were making was through marketing the by-products. I have the figures for the city of Toronto. There milk retails at 12 cents per quart, the farmers receiving an average of less than 4 cents a quart. I know these figures will be contested, so I place on the record the actual figures from two milk-cheque statements which I have sorted from hundreds of milk-cheques as fair average statements of milk being sold in my riding for consumption in the city of Toronto.

September, 1938. This one cheque was from one of the Borden group of dairies. 8,249 pounds of milk delivered. Total cheque to the farmer $109.61. The price per quart to the farmer was 3.37 cents for milk with 3.45 butter content.

Then in April, 1939, the milk delivered to the same company was 8,955 pounds. Total cheque $129.43. Price to the farmer per quart 3.6 cents per quart, and the butter content of that shipment was 3.75.

From these figures it will be seen that as to milk supplied to the city of Toronto, our farmers receive only 28 per cent of the price paid by the consumer. This is compared with 70 per cent which the farmers receive in countries where co-operative marketing is in vogue.

Hon. Mr. STEVENS: Mr. Chairman, personally I should like very much to hear a discussion of the fluid milk and dairy business, because it is a subject in which I am very much interested. I am pleased to hear these figures, and I agree with Mr. Cleaver's deductions, but what has that got to do with the Bank of Canada and the Bank of Canada's annual statement? The point is this, Mr. Chairman, it is not fair—I speak for myself alone—to me,—because I am just as much interested in that question as Mr. Cleaver,—for Mr. Cleaver to spread on the record a lot of material about this, as then the question comes

up, "What were the other members doing in regard to agricultural products?" But we are not the agricultural committee, we are not authorized to go into these questions, and I must suggest that we should try to keep to the order of reference in this committee.

I will tell Mr. Cleaver that in a discussion in the house or in a discussion in any committee I could go to where this subject is before the committee, I will go with him 100 per cent on an investigation of this matter, because I think it is one of the most important things in Canada. But it is not before this committee and we cannot make any finding on it. Mr. Towers is sitting here waiting to be questioned on matters pertaining to the Bank of Canada.

Mr. CLEAVER: Mr. Chairman, when this matter was brought up by Mr. Howard the other day it was my recollection that he stated the farmers in Canada were receiving over half of the retail cost of milk. I contradicted that statement but had not the figures before me, and I do not think our record should go throughout the country without contradicting that statement.

The CHAIRMAN: Mr. Cleaver, you registered your protest at the time and Mr. Howard, I think, immediately dropped the subject and went on with something else. If he did not, he should have done so. I sincerely trust that you will confine yourself from now on to the matter before us.

Mr. CLEAVER: Mr. Chairman—

The CHAIRMAN: That is the wish of the committee.

Mr. CLEAVER: I do respect your wishes very highly but I do want to complete—

The CHAIRMAN: It is the wish of the committee that we should go on with something else.

Mr. BAKER: I move that we vote on whether or not we want to hear a continuation of this.

Mr. CLEAVER: Will you permit one more sentence?

The CHAIRMAN: One more sentence, yes. Go on.

Mr. CLEAVER: The reduction in price which the combine dairies are paying is brought about through the dairies actually blackmailing the farmers into supplying surplus milk at 1.1 cents, and if the farmer does not do it he finds his quota of milk is cut.

Hon. Mr. STEVENS: I think the whole dairy business in regard to the distribution of milk is scandalous.

Mr. CLEAVER: I will delete all the rest.

To sum up, Mr. Chairman, we have a wonderful country with untold natural resources. We have a favourable balance of foreign trade. Through the Bank of Canada we have full control of our monetary system. We are our own masters through our democratic form of government; yet less than ·9 per cent of our people are receiving incomes in excess of $2,000. It is my opinion that new rules of the game are long overdue. We must either restrain the avarice of big business or by an equitable income tax we must take the excess profits from them after they are made. So long as everyone in this country is receiving a decent living, I do not much care as to what happens to the excess, but when we have over 600,000 of our people who would starve were it not for relief payments—

Mr. LANDERYOU: Over one million.

Mr. CLEAVER: I am giving a conservative figure. When we have that number of people who would starve except for relief payments I believe that the remedial measures which have already been taken are justified and that others are imperative.

The CHAIRMAN: You had better page Mr. Denton Massey, had you not, Mr. Cleaver?

Mr. CLEAVER: We have two questions on the record which Mr. Towers intended answering later.

Mr. VIEN: Mr. Chairman, Mr. Cleaver stated that he did not want some statement to go unchallenged. I simply want to point out, in the first place, that in my opinion, as stated by Mr. Stevens, this is not within the order of reference. In the second place, I would not like the statement that has just been read to go unchallenged; that is, that the income tax should be greatly increased on some classes of tax-payers in Canada as a proper remedy for the conditions which Mr. Cleaver has depicted. That is not my opinion.

Hon. Mr. STEVENS: Supposing we get Mr. Towers' opinion on some points appertaining to the Bank of Canada?

Mr. VIEN: There is no question before the chair. If Mr. Cleaver cares to ask Mr. Towers if there is any monetary policy that the governor of the bank could urge on the government of Canada to remedy that situation I would be very much interested in listening to the reply.

By Mr. Cleaver:

Q. Mr. Towers, you have already freely expressed the opinion that economic conditions in Canada to-day are highly unsatisfactory; that is true? —A. Yes. Perhaps I should add that in relation to a good many other countries I think they compare quite favourably, but that does not mean that they are satisfactory because they are not.

By Mr. Landeryou:

Q. Would you say that they compare favourably with the standard of living in the United States?—A. I would think that they come close to doing so. It is a matter of opinion. I do not say that they are quite as high throughout, although I think they are higher than certain sections of the United States. I think they compare favourably with any other country in the world.

By Mr. Cleaver:

Q. You are doubtless familiar with the income tax report of Canada and you are aware that less than point nine per cent of our people have incomes in excess of $2,000?—A. I do not recall the figures, but I daresay that is right.

Mr. VIEN: What are you reading from?

Mr. CLEAVER: The National Revenue Review.

Mr. VIEN: Page?

Mr. CLEAVER: Page 4.

Mr. VIEN: What issue?

Mr. CLEAVER: The issue of April.

Mr. VIEN: 1939?

Mr. CLEAVER: I have not the 1939 issue. But I should like to put on the record the statement, since there seems to be some question about it.

Mr. VIEN: I am not questioning it, but for the sake of the record I think the reference should be given.

Mr. CLEAVER: If I may, Mr. Chairman, I will be glad at the opening of our next meeting to place on the record the last report in that regard showing the number of income tax payers in the different brackets.

Mr. LANDERYOU: In the different provinces too.

The CHAIRMAN: Yes, but just a minute; you said less than 9,000 of our people; do you mean of our population or of the people who pay taxes?

Mr. CLEAVER: I would like to place the statement on the record.

The CHAIRMAN: Do you say that it is ·9 per cent of our population?

Mr. CLEAVER: I say it is ·9 per cent of our people.

The CHAIRMAN: Of the population of Canada ?

Mr. LANDERYOU: I move it be placed on the record.

Hon. Mr. STEVENS: Nobody is objecting to it, but I think Mr. Cleaver should state his authority.

Mr. CLEAVER: I will be pleased to place the statement on record as supplied by the Department of National Revenue.

INCOME TAX AND THOSE WHO PAY IT

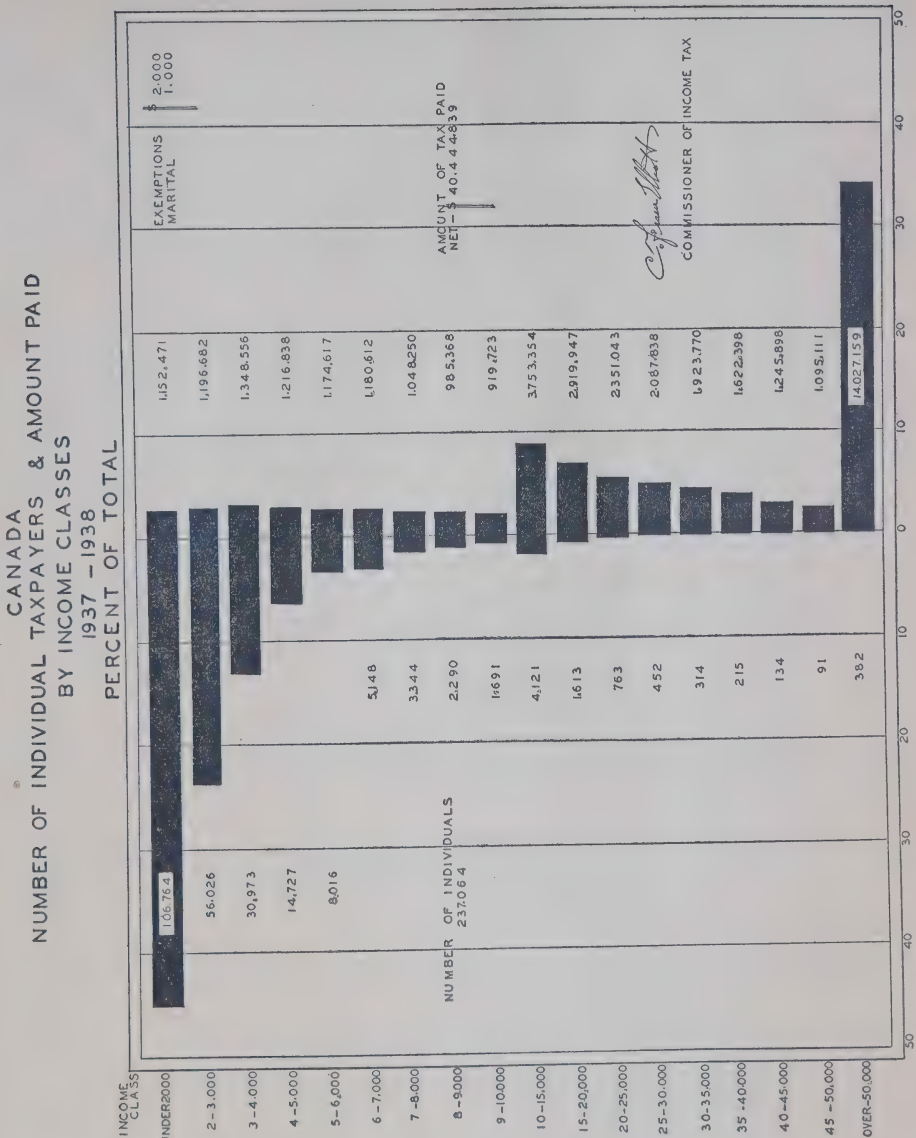
The accompanying chart shows the various individual income classes of the residents of Canada from whom income tax is collected. It is compiled on the tax collected during the fiscal year ending 31st March, 1938, and relates in the main to income received by the taxpayer in calendar year 1936.

It is to be observed that the chart indicates the income and classes from under $2,000 progressively to over $50,000, the number of taxpayers in and the amount paid by each class, while by reference to the vertical columns the percentage number of taxpayers in each class to the whole, also the percentage of payments by the same class to the total payments, may be obtained.

The total number of individual taxpayers in the year referred to was 237,064 and the net total paid by them $40,444,836.61. Thus it will be seen that the income class under $2,000 numbering 106,764, representing 45·04 per cent of the total taxpayers, contributed $1,152,470.55, which is apparently 2·79 per cent of the total amount paid by individuals.

On the other hand, at the foot of the chart it will be seen that there were 382 taxpayers (or 16 per cent of the total) with incomes over $50,000 who contributed $14,027,158.76 (an average of $36,720.31 each) or 33·94 per cent of the total payments.

Similar information is available covering the other classes by reference to the chart.


CANADA
NUMBER OF INDIVIDUAL TAXPAYERS & AMOUNT PAID
BY INCOME CLASSES
1937 – 1938
PERCENT OF TOTAL
INCOME CLASS
UNDER2000
2 – 3.000
3 – 4.000
4 – 5.000
5 – 6,000
6 – 7.000
7 – 8.000
8 – 9,000
9 – 10.000
10 – 15,000
15 – 20,000
20 – 25.000
25 – 30.000
30 – 35.000
35 – 40.000
40 – 45.000
45 – 50,000
OVER – 50,000
106.764
56.026
30,973
14,727
8,016
5,148
3344
2.290
1,691
4,121
1,613
763
452
314
215
134
91
382
NUMBER OF INDIVIDUALS
237.064
1,152,471
1,196,682
1,348.556
1.216.838
1.174,617
1,180,612
1.048,250
985,368
919,723
3753,354
2,919,947
2351.043
2.087,838
1,923.770
1,622,398
1,245,898
1.095,111
14.027.159
AMOUNT OF TAX PAID
NET – $ 40.444839
EXEMPTIONS
MARITAL
$ 2.000
1.000
COMMISSIONER OF INCOME TAX
50
40
30
20
10
0

By Mr. Cleaver:

Q. Mr. Towers, in a democratic country do you believe that such mass accumulation of wealth in the hands of a few is beneficial?—A. I think that is a difficult question to which to give a brief reply; I think it would be misleading. I certainly think that uneven distribution is not for the good of any country. The extent to which that distribution can be made in a way which will improve the total production of a country is a very complicated matter indeed, particularly if one wishes to continue the operation of a democracy in which so much depends on private initiative. If private initiative is dampened for reasons which may or may not be justified but which produce the result of discouraging private initiative, one may actually retard production, and even if one achieved a better distribution of wealth the total amount of wealth which was produced might be reduced so that no one would be better off.

The CHAIRMAN: A smaller cake and less for everybody.

By Mr. Cleaver:

Q. Do I understand you to suggest that a more equal distribution of wealth would necessarily lead to a lower standard of living?—A. No, I do not suggest that, but it is a question of the method of approach. If the method of approach is such as to frighten, discourage or in some way stop private initiative, there is a risk of falling between two stools; there is a risk through a wrong method of approach of having neither a democratic nor a totalitarian state.

Q. Do you not think in the light of present actual conditions in Canada that the question I raised of the tremendous unequal distribution of wealth should be considered as one factor causing the depression?—A. I find it very difficult to answer that. Our major trouble is—and of course this has been repeated ad nauseum and I am sorry to repeat it again—the unsettled international situation and the lack of foreign markets. Backing up from that into our economy is a lack of capital development, which means that the savings which individuals wish to make are presumably not being fully utilized, not being needed and asked for for the purpose of capital development. Now, the extent to which an uneven accumulation of wealth enters into that picture would be a very difficult thing to define.

Q. Approaching the question from another angle, do you admit that the unequal distribution of the annual wealth produced in the country can be carried to the point where there will not be enough left to go around for the masses?—A. Oh, in modern times, with modern income tax and succession duties, I cannot visualize that.

Q. That comes back to my point of income taxes which has been controverted by some members of this committee. I take it, Mr. Towers, that you fully realize the fact that a high rate of income tax on the higher-income brackets is a regulatory measure which would have the effect of preventing the mass accumulation of wealth in a few hands to the detriment of the public economy?—A. It presumably has some tendencies in that direction, although I believe that if you examine the situation in England, for example, you will find that in spite of high income taxes and heavy succession duties, so far as can be ascertained, the proportionate distribution of wealth has not greatly changed over the course of, we will say, 25 years. There has been some change, and of course there has been a great change in respect to the people in whose hands that wealth now lies; but the proportionate distribution is not greatly different from what it was 25 years ago. What it might have been without those taxes—that is another question.

Q. Quite. I take it from your remarks that you admit that the high income tax has been a restraining factor preventing the further mass accumulation of wealth.—A. That and succession duties. I would be inclined to

[Mr. Graham Ford Towers.]

think so. But they are very delicate weapons. A bludgeon cannot successfully be used in a democracy, and if the weapons are badly used they may, as I say, reduce total production —

Q. In the country?—A. — in the country.

Q. Coming to the other point, namely, the income tax on non-resident people earned in Canada, what are the financial objections to taxing incomes at the source rather than taxing it in the way we have been doing it?—A. I would prefer, Mr. Cleaver, that that question be answered by someone who is an expert on the subject. It is a complicated matter with all sorts of implications, and I am not the person best qualified to answer.

By Mr. Quelch:

Q. Mr. Towers stated the depression was due in part to the lack of capital development. You are referring, no doubt, to the lack of capital development by private enterprise. Would that not also apply to capital development by governments as well?—A. The capital expenditures by governments in general have been pretty substantial throughout the depression. I do not carry in my mind the figures during recent years as compared with, say, 10 years ago. The major disparity, the major fall, has been in private capital development.

Q. But could not that have been made up by a still greater expenditure of capital by the government, if necessary, by using the savings of the people to accomplish it in the same way as it would have been accomplished by private capital development?—A. If that development could have been along lines that were productive and really strengthened the economy, I daresay there is something in that line of thought.

Q. Such as irrigation?—A. I cannot answer that question without hearing some expert opinion on the productive value of a particular project.

By Mr. Cleaver:

Q. Have you available yet the percentage of dividends being paid by our Canadian merchant banks with respect to actual capitalization plus the percentage of the reserve account which is accounted for through sale of stock at a premium?—A. We put that on the record shortly after you asked it. You will find it at page 611.

Mr. Cleaver: Thank you, Mr. Chairman.

The Chairman: Mr. Deachman, Mr. Jaques asked for about ten minutes.

Mr. Deachman: All right.

Mr. Jaques: I have no desire to transgress on anybody's time. Mr. Towers, I want to ask a few questions on the subject of savings, because I think savings are the very essence of the matter that we are discussing, and the very core of the trouble.

Now, I have views on savings, I do not know whether I should say they are original or not, but anyway I have devoted a great deal of time and thought to the subject. These views may appear to be—what shall I say?—comical to some members of the committee but I want to say that I was never more serious in my life than I am at the present time.

The Chairman: That is a bad introduction. You have prepared us for something that is extraordinary.

Mr. Jaques: I look upon this committee not as a class of people being trained in a beauty parlour to cover up the imperfections in our system, but more as a class in anatomy so that we can dissect the thing and find out exactly what is the matter.

Hon. Mr. Stevens: Sort of a coroner's inquest?

Mr. JAQUES: Well, it is not dead yet, but it is seriously sick.

On Tuesday, May 16, we were discussing the method of financing rearmaments in Great Britain and the question of taxation was brought up, by Mr. McGeer, I think. I said: "Is not that increased taxation necessary to repay the banks which are financing the rearmament program?" Your answer was: "The banks are not financing the rearmament program, the citizens of the country are." Then the following questions and answers were put:—

> Q. Where were the savings before?—A. The savings accumulate each year, do they not?
>
> Q. What in?—A. In a surplus of goods over those which are consumed, not money.

Now, your last answer there is the one that I want to discuss. Is not that exactly the answer which I spent two hours in this committee trying to prove and which the Australian committee found was not true? Did not they say that savings did not cause a surplus of—

Mr. TOWERS: It is probably the case, Mr. Jaques, that instead of using the word "goods" I should have used the word "assets."

Hon. Mr. STEVENS: What is that?

Mr. TOWERS: I think that instead of using the word "goods" which might be open to misinterpretation, I should have used the word "assets," to comprise buildings, machinery, equipment, all the—

By Mr. Landeryou:

Q. What is the appreciation of assets in a year? Maybe you can explain that.

Mr. JAQUES: The increase in the national wealth, you mean?

Mr. TOWERS: Yes.

By Mr. Landeryou:

Q. What is that appreciation in a year, would you say, in England?—A. I cannot give that figure offhand. I do not know whether estimates are available or not.

The CHAIRMAN: Over a period of time throughout the world the estimate commonly accepted is $3\frac{1}{2}$ per cent or thereabouts, 3 per cent.

Mr. JAQUES: Now, I think—in fact I believe— that to-day what we call savings are divorced from all reality. I think that arises from everybody's experience that if a man saves a dollar it is like finding a dollar; he is a dollar in; he is a dollar to the good. But my point is that no individual can save money except at the expense of somebody else or at the expense of the community, for this reason: that money, if it is derived from wages or salaries is a claim on the production through which the wages were distributed and it is the only claim which can consume those goods. If these claims are not exercised by the public then the producer of those goods cannot recover his costs, and I think it is beyond argument.

Mr. BAKER: That does not say what happens on a rainy day.

Mr. JAQUES: Everybody knows that individuals say they are saving for a rainy day, and if a few people save it may not make any difference, but when saving becomes, as it has become, almost universal, to me it is beyond doubt that what it does is to bring about one wet spell for the whole country.

Hon. Mr. STEVENS: May I ask you this: is it your point that unless a person acquiring money, whether wages or salaries, more or less immediately disburses that or purchases something with it, there is a loss to the whole community?

Mr. JAQUES: Yes. The loss is indirect, but it results in failure to distribute goods through which those wages were distributed.

Mr. QUELCH: Loss in effective demand.

Mr. VIEN: If you keep it in reserve the increased wealth is still there.

Mr. JAQUES: No, I do not think so. What happens is this. Production stops. You have over-production.

Mr. CLEAVER: Do you mind a question?

Mr. JAQUES: No.

Mr. CLEAVER: Do you distinguish between savings that are hoarded and savings which are put to work by the purchase of securities?

Mr. JAQUES: Oh, yes.

Mr. CLEAVER: Are your remarks then not simply confined to savings which are hoarded?

Mr. JAQUES: No. I see the difference, but the result in the end is the same.

Mr. VIEN: If you have produced 1,000 bushels of wheat—

Mr. JAQUES: Yes?

Mr. VIEN: Whether it is being marketed or not, you are better off than if you had not got that 1,000 bushels of wheat.

Mr. JAQUES: The producer?

Mr. VIEN: The producer.

Mr. JAQUES: No, I do not think so.

Mr. VIEN: Because you have it in store.

Mr. JAQUES: It is no good.

Mr. VIEN: You could go to the bank and borrow on it.

Mr. JAQUES: I doubt—

Mr. VIEN: You never could?

Mr. JAQUES: Not funds.

Mr. VIEN: If you have a warehouse receipt from the elevator you can immediately mobilize a certain proportion of the value of your wheat, and do you say that you are not better off with that 1,000 bushels of wheat than if you did not have that 1,000 bushels of wheat, even though it cannot be marketed?

Mr. JAQUES: I would be better off if I could exchange that 1,000 bushels of wheat for $1,000. There is the point. Savings have, to my mind, ceased to have any reality for this reason, that when we speak of a nation financing or paying for the war or rearming through savings, it presupposes a condition of 100 per cent employment, and in such a case the government would say to the people, we find it necessary to rearm the country, and for that purpose the percentage of your people who are producing goods of all kinds and services which go toward your standard of living, have got to be laid off; they have to cease producing a certain amount of food and clothes and so on, and they have to go to work making arms and munitions. Now, that is no good to the people. They cannot consume the munitions. So you have to say that that is true in this sense: all this could be true if the people really saved the goods instead of saving a part of their salaries or wages. If a man spent his wages or his salary in food and clothes then he said to his wife: "Now, we are going to put by for a rainy day—we are going to put some of this food into cold storage; we have a good cellar down here, and we are going to put some of those clothes away in moth-balls, so that when a rainy day comes we will have something to eat and something to wear." Now, that is a case of saving.

Mr. TOWERS: That is the way savings take place, but usually indirectly and phrased in terms of money; although as I was trying to say the other day, to regard savings as money is, of course, an illusion.

By Mr. Jaques:

Q. Now, Mr. Towers, surely that is what we mean to-day. Everybody means that when they say they are going to save—surely everybody means they are going to save money. I do not know of any other meaning than that?—A. No, I do not think so. A man may save by making a certain investment which is phrased in money, but is not money. For example, if you have some savings in the form of a security, whether it be in the form of bonds or preferred stock or common stock, you have a share there in some bricks and mortar and machinery which you could not conveniently keep in your cellar.

Q. Yes, I agree with that, but it is the same.

Mr. VIEN: The same thing is true of life insurance and fire insurance.

Mr. TOWERS: Exactly. Although in that case you are giving it to somebody else to invest for you, but the net results are the same.

Mr. VIEN: But it is an additional asset.

Mr. TOWERS: Yes.

Mr. JAQUES: Here is the point. When money is saved—and I mean by money claims on goods—now, when those claims on goods are not exercised because they are saved for some other purpose, the claims on those goods are not given to anybody else; those goods pile up on the shelves, and all we have is what we call to-day overproduction. Now, that is overcome during good times by borrowing and going into debt.

Hon. Mr. STEVENS: Oh, Mr. Jaques, if that amount which you are saving,—which you refrain from spending in goods, is loaned by a bank or insurance company, or some other institution to somebody else who hires men to do work and consume goods, your savings have gone to other sources into the purchase of goods.

Mr. JAQUES: When that second lot of goods goes onto the market, what is there to buy then with but the money which was distributed in making the other lot? You have the goods on the shelf; you have two lots of goods and only one lot of money.

Mr. CLEAVER: I take it that you feel that savings are harmful?

Mr. JAQUES: Yes, I do.

Mr. CLEAVER: If there were no savings, how would you finance capital goods in industry?

Mr. JAQUES: Now, I do not want to hold up the committee, but I would like to be able to answer that. I realize, of course, the urge to save. It is one of the oldest instincts, and it would be absurd to try to put an end to it. But I do say this, that it is impossible for people to save money without doing so at the expense of the community. Instead of passing laws trying to prevent saving, allow people to save if they must, but see to it that the individual saving does not harm the rest of the community. Take the goods, for instance, which I prefer not to consume now in the hope that I shall have more to consume later on, or as some people think, even in the next world; those goods must be distributed if industry is to be kept going.

Mr. BAKER: Take an industry which, after a year's work, makes $5,000—

Mr. VIEN: In earnings.

Mr. BAKER: Net profits. Is that injurious to the community? You can take that $5,000 and divide it up. Suppose they decide to take that $5,000 and put it into machinery and employ more people and make more goods and give more work, would not that be a good thing to do? Yet, we are saving $5,000.

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Mr. JAQUES: You have left $5,000 worth of goods unsold.

Mr. BAKER: Oh, no.

Mr. JAQUES: Yes, you have. The point is that that money starts from the bank, and on its way through industry to the consumer's pocket, we say it lays a trail of costs, and those costs have to be liquidated. Now, every time the money starts out from the bank to the consumer it lays another trail of costs. So if the wage earners, the public, do not liquidate the costs which were generated by the passage of that money through industry into the consumer's pocket—if the consumer does not liquidate those costs but says—as Mr. Baker suggests—"no, I will reinvest that in further production"; now, that trail of costs is not liquidated.

Mr. BAKER: It gives more employment.

Mr. JAQUES: Temporarily. That money, without liquidating those costs, without liquidating the debt, goes through the process again, and when it goes to the consumer's pocket for a second time there are two trails of costs, and they cannot be liquidated.

Mr. VIEN: What monetary policy would you advocate to put your desideratum into effect?

Mr. JAQUES: I do not think I have time to do that to-day.

Mr. VIEN: It would be interesting to hear that. What monetary remedy do you suggest should be adopted to carry out what you have in mind.

Mr. JAQUES: Well, of course, that involves something which would not be very acceptable, I suppose to those who are not social creditors. That is the direct financing of consumption to the extent of the shortage of money due to savings.

Mr. COLDWELL: What do you mean by the direct financing of consumption to the extent of the shortage of money due to savings?

Mr. JAQUES: Money which goes direct into the consumer's pocket.

Mr. COLDWELL: How would you get that money into the consumer's pockets?

Mr. JAQUES: I presume that a sovereign government has the power to distribute credit.

Mr. COLDWELL: That is to say, what you would do is issue purchasing power directly to the consumer, as you call it, and you would continue to do that. Now, what would be the effect on the price level?

Mr. JAQUES: That effect would be a lowering of price levels.

Mr. COLDWELL: You say the effect would be a lowering of price levels?

Mr. JAQUES: Certainly.

Mr. COLDWELL: And you agree with Major Douglas?

Mr. JAQUES: Absolutely.

Mr. COLDWELL: I am going to read what Major Douglas says with regard to this point.

The CHAIRMAN: Only with Mr. Deachman's consent.

Mr. DEACHMAN: Go ahead.

Mr. COLDWELL: I am going to read from Major Douglas' evidence given before the royal commission on banking in Great Britain, and I am reading from question 4450.

Mr. JAQUES: What are you reading there?

Mr. COLDWELL: I am reading from the report of the evidence given by Major Douglas—

Mr. JAQUES: What is the name of the book? I do not trust in the evidence unless I know what it is.

Mr. Coldwell: It is actually a report of the evidence of Major Douglas before the Macmillan commission.

Mr. Jaques: I have read all the actual evidence many times.

Mr. Coldwell: It is the actual evidence, I assure you.

Mr. Vien: May I ask Mr. Coldwell to give the title of the book and the page?

Mr. Coldwell: This is taken from an analysis of that evidence.

Mr. Jaques: Ah.

Mr. Coldwell: Wait a minute. This is a book entitled, "Social Credits or Socialism," by W. R. Hiskett.

Mr. Jaques: Oh, yes. Now, Mr. Chairman, that is a retouched photograph; it is no good at all.

The Chairman: Just a minute, please. As I understand the situation, Mr. Coldwell proposes to read an extract from the proceedings of the Macmillan commission.

Mr. Jaques: He is not doing anything of the kind.

The Chairman: We will have to hear what he says first.

Mr. Jaques: I know the book.

The Chairman: I know the book too.

Mr. Jaques: He is reading—what shall I say—a rehash.

The Chairman: No. I understand that Mr. Coldwell does not intend to read a rehash, but certain sections of question and answer from the report.

Mr. Jaques: I have read Hiskett's book.

Mr. Coldwell: May I read the introductory paragraph:—

> On the 1st of May, 1930, Major Clifford Hugh Douglas, M.I.Mech.E., M.I.E.E., appeared before the Macmillan Committee on Finance and Industry, and gave evidence. After Major Douglas, in a brief personal statement, had indicated the factors which led him to his present conclusions, the chairman of the committee opened the examination with a reference to the written statement of evidence which had been supplied to them.

And I now have before me all the questions that were asked by the chairman and other members of the commission, and all the answers that were given by Major Douglas.

Mr. Jaques: You have Hiskett's version of it.

Mr. Coldwell: I propose to read the statements made and the questions asked Major Douglas and his answers to those questions. Now, the evidence I have is the evidence correctly reprinted from the Macmillan report, and I think the chairman will probably know this book.

Mr. Jaques: I have read it, and the evidence too.

Mr. Coldwell: I will give you the number of the question. After questioning Major Douglas for some time, Major Douglas more or less apologizes because he had to be too elementary. That is at question 4450:—

> Q. You cannot be too elementary for me, I assure you.—A. The first point from which you have to start is this: you have at the present time an unused capacity for production. You cannot use it because you cannot sell; that is point one. Point two is that your financial system is nothing but a ticket system; it is not a matter of any importance whatever by itself; therefore, if it is necessary to make adjustments in your financial system then those adjustments can and should be made. Now

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> your difficulty at the present time is the difficulty that your purchasing power in relation to your prices is insufficient, so clearly you have to lower your prices, or increase your purchasing power; to increase your money you really have to increase your purchasing power. The difficulty in discussing this subject is to keep very clearly in mind the difference between purchasing power and money. If you merely add . . . .

And this is what I draw particular attention to on account of what has been said before in this committee:—

> If you merely add to the amount of money you will probably not increase your purchasing power, because your prices will automatically rise. In order to avoid that difficulty one method by which it can be done is to lower your prices by means of a subsidy which does not come from purchasing power, which does not come from the public, which is already deficient in money, as compared with the collective prices.

Mr. JAQUES: Quite right.

Mr. COLDWELL: Mr. Chairman, I continue to quote:—

> Q. It is just at that point that I think the difficulties begin to emerge. Up to that point I think we might more or less agree with your statement; when you come to the question of remedy it is perfectly true we could produce more if we could sell more if we had more purchasing power, but the trouble is, if you create more purchasing power, and increase the volume of money, then, as you very properly say, the result will be that prices will step up and you will be as you were.

And Major Douglas replies:—

> A. That is so.

Mr. JAQUES: Now, Mr. Chairman, may I give Major Douglas' remedy for that? That is what I say; there is the unfairness of these proceedings. Major Douglas there, of course, was arguing from the orthodox point of view, and we all know that other things being equal prices rise with the volume of money; but Major Douglas has proposed a very simple remedy to kill two birds with one stone. Assuming the shortage of purchasing power and the need to distribute goods to the consumer in order that consumption may be stepped up without raising prices, that is perhaps the simplest remedy in the world, and it is this—it is known as the just price. Now, he does not intend or propose to set the price. Prices will be left to the free play of competition, economy and efficiency. That is to say, if I am a more efficient producer than my neighbour, then I can undersell him, because I am more proficient. Major Douglas does not propose to set a price at all—a retail price—and this only applies to retail prices; prices will find a level, which they do, through the free play of competition.

Hon. Mr. STEVENS: What is his remedy?

Mr. JAQUES: Now, if the deficiency of purchasing power were to be distributed in one form as a dividend, as we have heard before, say, of $25 a month, as Major Douglas and anybody else knows, who knows anything about the subject, prices would probably rise to the extent, say, of $25, and you would be no better off. Prices would rise.

Mr. COLDWELL: You really say that if you issued the Alberta credit dividend of $25 a month you would be no better off?

Mr. JAQUES: I do not believe you could determine it beforehand.

Mr. COLDWELL: Suppose you issued $75?

Mr. JAQUES: So long as that dividend resulted in increased production without any unusual expense I would expect no increase in prices until industry was in full blast. When that occurred there might be a tendency to raise prices; but anticipating any danger of it Major Douglas proposes a second remedy, and they must be taken together; you cannot take one without the other, and it is this: he proposes that retailers shall be authorized by the government to sell their goods at a fraction of their retail price.

Hon. Mr. STEVENS: What fraction?

Mr. JAQUES: That fraction is arrived is arrived at by the calculation of the total production of the country and the total consumption. If you divide the total consumption by the total production you get your fraction.

Mr. COLDWELL: How is that deficiency made up?

Mr. JAQUES: We will say the total production of the country has been determined quite exactly by the Bureau of Statistics, and the total consumption has been arrived at; now, if you divide the total consumption by the total production you get a fraction, and that fraction multiplied by the retail price will give you the compensating or just price. Now, the retailer would be out of pocket, naturally. Consider this tie, for example—a dollar tie. If the government had declared a price discount of 25 per cent, then I would obtain that tie for 75 cents. The retailer would be 25 cents out of pocket, but he would be compensated by the state to the extent of 25 cents.

Hon. Mr. STEVENS: Where would that 25 cents come from?

Mr. JAQUES: Where would it come from? Why, it comes, as I say—what term does Mr. Towers use?—on the surplus of goods over those which were consumed. That is where it is derived. It is based not on potential production but on actual production of goods; the goods are there, but they cannot be sold.

Mr. CLEAVER: How would you propose to raise that subsidy?

Mr. JAQUES: The state is sovereign; this parliament is sovereign, so it has the money—

Mr. CLEAVER: Would you raise it by taxation?

Mr. JAQUES: No. What is the good of taking money away when the people have not enough?

Mr. COLDWELL: Let us suppose that the amount of purchasing power available is $1,000,000 a month in Canada, or $12,000,000 a year, and your deficiency is 25 per cent, which I think is Major Douglas' proposal. In each and every month the treasury board would issue to the retailers 25 per cent of $1,000,000 which would be $250,000. So that each month your purchasing power would increase by $250,000; is that right?

Mr. JAQUES: No, it would not. If you will allow me to finish this I will trace where that money goes. Now, we have got to the stage where the retailer has sold. Let us take a car, for instance—a $1,000 car—a car which retails for $1,000—and the government or the state has declared a price discount of 25 per cent. Now, the public can go and obtain that car for $750. The buyer paws $750 and he signs—of course, there are many ways and details of how the actual technicalities of the thing can be done—whichever way is most convenient—but we will take this one: the purchaser pays $750 and he gets the car and he signs a sales receipt which he gives to the car dealer. Now, the retailer of the car takes his commission out of the $750 and he sends the balance with the sales receipt to the wholesaler. The wholesaler takes his commission out of what is left of the $750 and he sends the balance and the sales cerificate or receipt to the manufacturer. The manufacturer produced the car on production loans.

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Mr. BAKER: What about the wholesaler?

Mr. JAQUES: No, he remits the balance of the money with the sales receipt. The manufacturer, of course, is out 25 per cent.

Mr. McDONALD: The first man is out 25 per cent.

Mr. JAQUES: No, he is compensated by the state.

Mr. McDONALD: The manufacturer is not out anything.

Mr. JAQUES: Yes, he is.

Mr. McDONALD: He has a profit of 25 per cent. There is a 25 per cent discount on the retailer, and the money left is just sufficient to pay the wholesaler and the manufacturer.

Mr. JAQUES: No, because—let me finish——the price of anything is simply set to include costs and profits. If a man does not make a profit he cannot continue. I have been in business long enough to know that. He must make a profit or go out of business, and he has to charge more in prices than he distributes in money. This car has been produced with thousands of others by bank loans. Now, the manufacturer has to repay his loan, and he sends the balance of the money which he received for this car—and, of course, thousands of other cars—together with the sales receipts, to the bank. Now, the bank credits the manufacturer with the full amount, and he has paid his debt. The bank is out 25 per cent.

Hon. Mr. STEVENS: The bank has a $250 receipt.

Mr. JAQUES: The bank is out $250. When that car was made, the national credit was written up by that car; the national wealth increased by that car, did it not, and all other cars? And there it is on the national accounts. When that car was sold that account was written down by the amount of that car, and that amount of credit is issued to sell the car and the state then reimburses the banker—and other accounts as well.

Mr. COLDWELL: May I ask you the same question—

Mr. JAQUES: The car is sold and all accounts—

Mr. COLDWELL: May I ask the same question that was asked by Mr. McKenna of Major Douglas: "How do you get that credit back? You get it from the consumer, you pay it into the bank, who pay it into the treasury, who get additional credit from some source, but you never do get that back?" What is your answer to that?

Mr. JAQUES: What was that again?

Mr. COLDWELL: How do you get it back?

Mr. JAQUES: How do you get what back?

Mr. COLDWELL: The $250.

Mr. QUELCH: You cannot ask one single question without showing what has been going on beforehand.

Mr. COLDWELL: May I say this, that Mr. Jaques has fairly well memorized—

Mr. JAQUES: I do not memorize; I understand.

Mr. COLDWELL: —Major Douglas' evidence on this point.

Mr. JAQUES: I am not memorizing. I have studied this.

Mr. COLDWELL: I will not say memorized; you have it fairly accurately in your mind. Mr. Jaques has this matter fairly accurately in his mind, and the question I am asking is the question that was asked on a similar piece of evidence of Major Douglas. Now, what is the answer to that? Major Douglas' answer is this:

> I will pursue this subject as far as you like, but I am frankly much more interested in making you see the thing is perfectly possible. If you would really like me to get out a considered report as to the

> mechanism by which it can be done, I shall be delighted to do it. My services are entirely at the disposal of the committee, but the point that I want to hammer home is that it is inconceivable that you cannot get a mechanism which will enable you to equate purchasing power to the capacity to deliver.

And that was the final answer of Major Douglas on this point. In other words, they brought him before the committee to tell them how he would do that, and when they got him to the point and asked him how it could be done, he said: ". . . . it is inconceivable that you cannot get a mechanism which will enable you to equate purchasing power to the capacity to deliver." He said that it is inconceivable that a mechanism cannot be found.

Mr. JAQUES: He never meant anything of the kind.

The CHAIRMAN: Order, order.

Mr. JAQUES: It is well known that socialists have the greatest hatred—

The CHAIRMAN: Order, gentlemen, order.

Mr. JAQUES: This is perfectly in order. For this reason, that they realize that it is a remedy but it is not the remedy they want. It does not involve—

Mr. COLDWELL: Give us the mechanism.

Mr. JAQUES: I have given it. Am I to write out all the different things: the government paper and the form of the cheques?

The CHAIRMAN: Mr. Deachman is not a socialist and he has a question to ask.

Mr. DEACHMAN: Your theory is based, is it not, on the idea that in the production of a given product there is not issued sufficient purchasing power to bring it out and buy it back?

Mr. JAQUES: Yes.

Mr. DEACHMAN: Here is a box of cigarettes which I have taken from Mr. Quelch. Can you tell me how, in the production of that box of cigarettes—say it costs $1—how did it fail to issue sufficient purchasing power to buy it back. There is the raw tobacco, the box, the cost of selling. In the dollar that was paid, did not each part of it go to somebody?

Mr. JAQUES: The factories which produced that down even to the pulp factory in the woods are loaded with debt charges.

Mr. DEACHMAN: That goes to somebody, does it not?

Mr. JAQUES: Yes, it does, partly to pay debt.

Mr. DEACHMAN: It passes into the hands of somebody, and, therefore, it forms part of the purchasing power to buy back that box of cigarettes.

Mr. JAQUES: Yes, if it is exercised; but the point is that the purchasing power is not exercised, it is saved; it goes through the process again.

Mr. DEACHMAN: If it is saved, then it goes into plant equipment or into something else or is loaned to the government.

Mr. JAQUES: Not in respect—

Mr. DEACHMAN: I want to get to the one point where that drops out of sight and is gone into oblivion.

Mr. JAQUES: I think I have explained it. I took it for granted that everybody in this committee thoroughly understood that money is created and is destroyed. Of course, if they do not understand that—

Mr. COLDWELL: How do you destroy $250?

Mr. JAQUES: Every loan repaid destroys a deposit. Surely that is understood; if it is not, you will never understand social credit.

Mr. DEACHMAN: Here is my second question: we have a production in Canada, we will say, of roughly $3,000,000,000. Therefore the purchasing

[Mr. Graham Ford Towers.]

power that must be issued to the people, according to your 25 per cent theory, is $750,000,000. Suppose we continued to do that for ten years; we would have $750,000,000,000 of tickets out.

Mr. JAQUES: Yes. You think it would all pile up?

Mr. DEACHMAN: I do not know what you would do with it.

Mr. JAQUES: Instead of it piling up you would have your debts paid and the money would be destroyed when the debts were paid.

Hon. Mr. STEVENS: Will you go back to your very lucid illustration of that point? We have that $250—call it a discount ticket. We have got that to the bank.

Mr. JAQUES: Yes?

Hon. Mr. STEVENS: Now the banks have it in their hands.

Mr. JAQUES: From the manufacturer.

Hon. Mr. STEVENS: Yes.

Mr. JAQUES: Do you want to know what happens next?

Hon. Mr. STEVENS: What is next?

Mr. JAQUES: I should have said that when the car was made, in the national account there would be a debit set up. Let me apply this thing and demonstrate it. When that car is produced, of course, it sounds foolish to take one article, but when that car was produced it was an increase in the real wealth of the country. It is not potential; it is there. It is in existence. Now, the national account was written up to the value of that car, and when that sales receipt comes back or is sent to the national accounting office or department, on the strength of that production there is a credit issued for $250, let us say, which the bank uses to clear its books, and it is then wiped out of existence, and so is the car on the national account.

Hon. Mr. STEVENS: I have one or two more questions.

Mr. JAQUES: It is merely bookkeeping.

Hon. Mr. STEVENS: I understand the bookkeeping set-up, but I cannot understand the redemption side. When the car was manufactured we will assume for simplicity of argument that the manufacturer got the full value of the car from the bank as a loan in order to produce it.

Mr. JAQUES: No, he does not; he has to add more than he gets in order to make his profit.

Hon. Mr. STEVENS: Quite so; he gets the value of the car, plus profit, because he is entitled to that profit;; but we will assume he gets that in credit or money. Now, the manufacturer distributes that in wages, materials and profits.

Mr. JAQUES: Wages, salaries and dividends.

Hon. Mr. STEVENS: Materials and profits, which he distributes—

Mr. QUELCH: He has to sell the car before he gets the profits.

Hon. Mr. STEVENS: But he gets the credit from the bank to produce the car and he distributes what he gets from the bank in this way that we have mentioned. Is not that right? He must.

Mr. JAQUES: Yes, of course, he pays wages, salaries and dividends.

Hon. Mr. STEVENS: There comes back to him a $250 adjustment certificate.

Mr. JAQUES: Yes.

Hon. Mr. STEVENS: Which is not currency; it is a certificate. That comes back to the bank by the manufacturer; but how is the bank going to compensate itself for the advance it made to the manufacturer, because that $250 has not yet become currency?

Mr. JAQUES: No. Here, of course, is where I lack the technical knowledge of banking.

Mr. COLDWELL: Never mind the technical language.

Mr. JAQUES: I understand the theory of it well enough, make no mistake about that. What you have to realize is that the bank does not lend money; it lends a promise to pay money, and so before the bank is reimbursed there is a liability standing against the loan.

Mr. VIEN: Who reimburses the bank?

Mr. JAQUES: The state.

Mr. VIEN: How does the state get it back?

Mr. JAQUES: It does not get it back; why should it?

Mr. VIEN: In what way?

Mr. JAQUES: It is simply cancelled out of existence.

Mr. VIEN: You have your car which cost $1,000 at a given moment. The mechanism set up by the government says there is a 25 per cent discount on the sale price and you will get $250 of credit. Then he gets that $250 of credit. He deposits it in his bank and somebody must pay for that $250. The government pays it to the bank?

Mr. JAQUES: Yes.

Mr. VIEN: How is the government going to be reimbursed; how is the government going to reimburse itself for the $250 that it has paid out to the bank?

Mr. JAQUES: The real wealth of the state was first of all created or enriched, if you like, by the production of the car. There is your real wealth of the state; it does not belong to me personally but to all of us. When the government monetizes a part of the real wealth it merely authorizes the banks—

Mr. VIEN: To advance credit?

Mr. JAQUES: To put a pen through that account, saying "paid"; that is all. It is cancelled out of existence and the car disappears into the owner's garage, and so far as the state is concerned the car and the credit disappear at the same time.

Mr. VIEN: The state pays the bank; somebody has to pay them. Somebody has to pay for that. It cannot disappear like that.

Mr. JAQUES: That is just what it does. Every loan we paid destroys a deposit. Money is created and destroyed. Surely we all know that.

Mr. VIEN: Take, for instance, the province of Alberta.

Mr. JAQUES: Yes?

Mr. VIEN: If it set up a banking system of that kind within the boundaries of its own territory—

Mr. JAQUES: And it could.

Mr. VIEN: On this car that you have taken as an example it pays $250 to the bank. The bank is the institution which has advanced the $250 as credit to the retail merchant, and it must be refunded that $250.

Mr. JAQUES: Well, the difference is this, that in Alberta the courts hold, and the government here holds, that it has no sovereign powers; it cannot create money. This government can; it is superior to all other powers and if it says "this is money," it is money.

Hon. Mr. STEVENS: You contend the banks create money?

Mr. JAQUES: Certainly.

Hon. Mr. STEVENS: Why does not the Social Credit government of Alberta get a charter for a bank which they can get by putting up $250,000 and put their system into operation?

[Mr. Graham Ford Towers.]

Mr. JAQUES: You cannot do that; you could not get it that way by the laws of the country. We would have a bank in Alberta and would be bound by the same laws that the other banks are bound by.

Mr. COLDWELL: You say the other banks do create money and have the power. Why would not a bank in Alberta have similar power?

Mr. QUELCH: The banks operate on a reserve basis.

Mr. JAQUES: To operate such a bank in Alberta could only be done by an alteration in the Bank Act.

Hon. Mr. STEVENS: The Alberta government has a credit value, just the same as the dominion has, but to a lesser degree, of course. Why could not the Alberta government organize a bank and set up to do business just the same as the commercial banks, and having the prestige of the government behind it, it would have a lot of business. It could then carry on this price adjustment, just price, retail discount system. Let that bank function in Alberta with the Alberta government's prestige behind it just the same as if it were operating in Ontario or any other province.

Mr. JAQUES: As a matter of fact, they are doing something very similar to that at the present time, but it is applied to goods produced in Alberta. They are giving a price discount in Alberta now, not a very big one, I think it is 3 per cent.

Mr. QUELCH: There is a very definite reason why Alberta cannot go into the banking business on that scale. The simple reason is that a bank very largely depends upon the confidence of the people. The reason people are willing to accept cheque money instead of cash is that they have confidence that the bank will be able to give them legal tender for their cheques. Well, if we were to establish a provincial bank, we know very well there would be a determined attack upon that bank through the press and other institutions. An attempt would be made to undermine the confidence of the people, and if we started to expand on the ratio of ten to one as the other chartered banks do, very shortly there would be a run on that bank and the bank would have to close its doors just exactly the same way as the chartered banks in this country would have to close their doors if everybody demanded their deposits at the same time, unless the government came to their rescue, and if in the final analysis we did not go off the gold basis requirement.

Mr. VIEN: We will relieve the situation by setting aside that question. Suppose it were the federal government—I am taking your example now. The social credit system is created and demonstrated by the federal government. There is no more a constitutional question as between the provinces and the dominion itself. Here I am with that car, and the federal government has advanced the credit to the bank and has told the bank to advance credit to the extent of $250. Then, the government must pay the bank for that credit that the bank has extended. How is the government going to do that, by issuing paper money?

Mr. JAQUES: No; I do not think the actual credit instrument, or the exact form of it, is of any importance.

Mr. VIEN: Oh, it is material.

Mr. JAQUES: It is the essence—it is merely whether the government has to-day power to do that.

Mr. VIEN: Would you tell me what you would suggest as the method of reimbursing the bank if the federal government were operating the system?

Mr. JAQUES: They could send the bank a cheque on themselves.

Mr. QUELCH: That is what we are doing in Alberta at the present time.

Mr. JAQUES: The bank would be empowered by a superior power to say that these two accounts balance.

Hon. Mr. STEVENS: You say send a cheque on itself?

Mr. JAQUES: The government.

Hon. Mr. STEVENS: Who would redeem that cheque?

Mr. COLDWELL: What redeems the cheque?

Mr. JAQUES: What redeems the cheque?

Hon. Mr. STEVENS: Yes; the cheque must be redeemed.

Mr. QUELCH: In what? It does not have to be redeemed except in goods.

Mr. MACDONALD: What does the bank do with the cheque?

Mr. JAQUES: It would apply—

Mr. QUELCH: Credit it.

Mr. JAQUES: I have said that you have got to visualize Canada as one great going concern and there is a national account set up. We have it to-day. Dr. Coats has told me they could supply us all the information necessary right now. Some people have said it would cost thousands, that you would have to have 100,000 people working on those accounts. Dr. Coats has told me they could do it now. An account is kept of all production in the country, not only of retail goods, but of capital goods and imports. For our purposes imports are credits and exports are debits.

Mr. COLDWELL: Yesterday Mr. Blackmore said that credit and money were issued against goods. He said that I was wrong when I said the social crediter mistook the shadow for the substance against goods. Now, if you issued $250 of credit it must be issued against goods.

Mr. JAQUES: Yes.

Mr. COLDWELL: What goods?

Mr. JAQUES: That is what I am telling you.

Mr. COLDWELL: Whose goods? What goods?

Mr. JAQUES: Here is the national account. On the credit side is all the total production of the country, retail goods, capital goods and imports. On your debit side would be all goods sold, all plant and machinery worn out and all exports.

Mr. COLDWELL: You issue $250.

Mr. QUELCH: He is giving you the very answer.

Mr. JAQUES: Wait a minute. There is your national picture; there is your national account or balance sheet. Now, every country if it were functioning as it ought to function is gaining in real wealth. On the strength of that amount, or as Mr. Towers says here "the saving accumulate," on the strength of that accumulation of those savings in surplus goods the state would monetize—

Mr. COLDWELL: But the state does not own those goods; they are owned by the citizens, the individuals across the country. What is the state to use to validate that credit when the state does not own the goods?

Mr. JAQUES: You might as well say the state does not own the money and it cannot tax the people, but it can.

Mr. COLDWELL: It taxes the people because they have the goods and services.

Mr. JAQUES: If you can take their money, where is the difference in creating credit—

Hon. Mr. STEVENS: In other words, the answer is, in order to redeem that $250 the state would tax other goods and services.

Mr. JAQUES: No; it does not tax anything.

Mr. VIEN: First of all the assets that have been produced?

Mr. JAQUES: No.

Mr. VIEN: Instead of belonging to the producer it now belongs to the state, and the state can draw on this accumulated amount of assets produced by each individual—

Mr. COLDWELL: That is the only way it can come into effect, by socialism.

Mr. JAQUES: Socialists have that idea because very few of them have ever been in production. I have been in production all my life. They have an idea that a producer produces and hates to get rid of what he produces; that he wants to store it and say: would you not like to have it? Well you shall not have it.

Mr. VIEN: If you take a government statement containing on one side of the balance sheet all the goods that have been produced and on the debit side of the balance sheet everything, their depreciation in the way of wear and tear and so on, and the government draws on that excess production of goods to pay that discount ratio that we have been discussing, evidently the government socializes all the assets they have been produced and draws on the assets side of its balance sheet to pay the discounts that they grant.

Mr. JAQUES: Do not they do it to-day? Do they not tax everybody and everything? They tax everything that is produced and everything that is sold. There is an 8 per cent tax on everything that is sold. They do not own those goods, but they can tax them just the same. Now, this is a substitute—

Mr. VIEN: If the government of Canada did that, once it has advanced the credit and it has directed—

Mr. JAQUES: It does not advance it.

Mr. VIEN: Once it has directed the bank to advance to that retailer the $250—

Mr. JAQUES: It does not do that.

Mr. VIEN: But it does; it gives it a certificate and this certificate is deposited to the credit of the retailer in the bank account.

Mr. JAQUES: No; I did not say that. That might be one way of doing it. The thing I described is this. The purchaser got his car for $750 instead of $1,000.

Mr. VIEN: The consumer.

Mr. JAQUES: Yes.

Mr. VIEN: He bought it from the retailer.

Mr. JAQUES: Yes.

Mr. VIEN: According to the monthly statement the government organization told that retailer there is a price discount of 25 per cent.

Mr. JAQUES: Yes.

Mr. VIEN: Then this car, which is figured in his books at a value of $1,000 immediately has a value of $750; the balance between the $750 and the $1,000 is made up by credit advanced by the government to the retailer.

Mr. JAQUES: No; the retailer takes his commission out of the $750, and he sends the balance with the sales receipt to the wholesaler. The wholesaler takes his commission out of what is left and he sends that to the manufacturer along with the sales receipt. Now the manufacturer produced the car on a production loan from the bank. The manufacturer—

Mr. VIEN: Then the credit instead of being redeemed is advanced to the producer?

Mr. JAQUES: Yes. Then he sends what is left with the sales receipt to the bank and he is credited in full. Now, the bank is out.

Mr. VIEN: Credit for $1,000.

Mr. JAQUES: Well, whatever he borrowed. It would not be the thousand because he would have to add on his profit and the retailer has to get his profit, and so does the wholesaler; but whatever he borrowed from the bank, he would send the balance to the bank with the sales receipt. Now the bank—

Mr. VIEN: What about the deficiency credit, or the discount?

Mr. JAQUES: Yes. Now we come to this position, where the bank is out the difference. It is a matter between the bank and the government of the country. What you have to get into your mind is the bank never loaned money; they loaned a promise to pay money; it is a liability.

Mr. VIEN: I have to come to what I wanted. The bank is out the difference?

Mr. JAQUES: Yes.

Mr. VIEN: That is your statement?

Mr. JAQUES: Yes.

Mr. VIEN: And it is a question of adjustment between the bank and the government?

Mr. JAQUES: Yes.

Mr. VIEN: Now the bank is out the difference and it comes to the government and says: I am out $250.

Mr. JAQUES: No, it sends the sales receipt to the government. Now, when they get to the department which is administering this thing the national account is written down by the value of the car, the car is crossed off and so is the credit which was created when the car was made.

Mr. VIEN: What about the bank?

Mr. JAQUES: The bank then has the credit—

Mr. COLDWELL: Well, what about the government?

Mr. JAQUES: Well, the national account was written up by the value of the car when the car was produced. There is your real credit. Now, the state merely monetizes the fraction which is unsaleable.

Mr. COLDWELL: Coming back again, Mr. Jaques, the real credit has a basis, you say, of goods and services?

Mr. JAQUES: Certainly.

Mr. COLDWELL: If the government is reimbursing the bank somebody has to validate that reimbursement of goods and services. How does the government secure those goods and services? I can see this, if you had a completely communistic state you could do this between your state industries. It could be done in a communistic state in which everything was owned by the government. The point I am trying to arrive at is how is that credit going to be validated in goods and services without taxation on the part of the people? Otherwise it becomes simply indefinite inflation. You keep issuing $250 and $250 and $1,000 and $1,000 and so on.

Mr. JAQUES: It is quite evident that Mr. Coldwell does not yet understand the nature of money.

Mr. TUCKER: I should like to illustrate the difference between Mr. Jaques and myself. As I understand the social credit idea, it sums up, I think, in this way, that you can continue to put purchasing power out into the hands of the people indefinitely without any regard to the ability of the people to produce to meet that purchasing power.

Mr. QUELCH: No.

Mr. TUCKER: Just a minute. Now, if you do not have some means of recovering that purchasing power, cancelling it out—

Mr. JAQUES: It cancels itself out through sales. If you do not understand—

[Mr. Graham Ford Towers.]

Mr. TUCKER: You say it cancels itself?

Mr. JAQUES: Of course, it does.

Mr. TUCKER: When you say it cancels itself you overlook the fact that when anybody gets a loan from the bank that money then comes into existence; it goes into the hands of people, wage earners and so on, and they have it in their accounts. Then when the government gives a cheque to pay the banks the people still have the money in their accounts to whom the money was paid and the bank is no longer holding it. In other words, you have increased the amount of your deposits in the banks by the amount of your original loan and as you do that the amount of your deposits in your banks continues to increase; there is absolutely no limit to it unless you make some provision for cancellation of what you create. Let me make that plain again, Mr. Jaques.

If you loan an industry $1,000 and it puts it out in wages, it then goes to John Smith and Henry Brown and so on, and if they have a deposit in the bank it is deposited there, or it goes to the grocer and is deposited in the bank. Ultimately that $1,000 is deposited in the bank. In other words, the deposits in the bank have increased by that $1,000. Then if the state, by virtue of a price discount pays the bank that $1,000, you say it is cancelled off?

Mr. JAQUES: So it is.

Mr. TUCKER: But the deposits of Henry Smith and the grocer and so on have gone up by $1,000; it is not cancelled off. If you keep that up ultimately your deposits in the bank will be up; there is no limit to it. They will go up by billions and billions of dollars; it is a matter of time. In other words, you have increased the purchasing power of the people without regard to their ability to produce because you are simply increasing your purchasing power and you are not cancelling.

My attitude on this thing is simply this, that you should give the people the necessary purchasing power to be able to consume what they, as a people, are able to produce. The reason why it is necessary to do that is not that you do not distribute purchasing power but that you merely distribute it—

Mr. JAQUES: No, it is not that.

Mr. TUCKER: In other words, the purchasing power put out goes into the hands of companies in the form of exhorbitant profits, undistributed reserves and so on. You have got to replace what is kept out of the annual production demand by virtue of state action and then by virtue of income tax and other taxes and so on you have to replace it. In other words, there is no such thing as in indefinite issue of purchasing power.

Mr. JAQUES: Well, the only objection to what you say, Mr. Tucker, is that history proves that you cannot do what you say you should do. You cannot enrich the country by taxation.

Mr. TUCKER: No; the point is this: if you continue to issue purchasing power—

Mr. JAQUES: What do we do to-day with taxation?

Mr. TUCKER: If you continue to issue purchasing power regardless of the ability of the people to produce goods—

Mr. JAQUES: We do not do that.

Mr. TUCKER: Just a minute. You say you do not do that?

Mr. JAQUES: Of course we do not.

Mr. TUCKER: We will say that in one year you issue $1,000,000 to people under your scheme. That $1,000,000 increases your bank deposits to that extent, and it stays in the hands of those people; it is not cancelled. The next year you issue another $1,000,000 and the next year another $1,000,000—

Mr. JAQUES: Will you allow me to answer that?

Mr. QUELCH: What about your war debts?

Mr. TUCKER: It just means you have increased your money in the country because the bank deposits are increasing without any consideration of—

Mr. JAQUES: You are doing nothing of the kind, Mr. Tucker. What are we doing to-day but issuing purchasing power through the banks? What other money do we have? Why does not that pile up? There you are. If you have to have a low—

Mr. TUCKER: The first thing that struck me, Mr. Jaques, about the suggestion that Mr. Aberhart made—

Mr. JAQUES: We are not discussing Mr. Aberhart.

Mr. TUCKER: He is supposed to represent social credit. As I remember, the first suggestion he made was that he would issue a dividend on goods and limit that issue to $12,000,000. The suggestion was made that the $12,000,000 would come back again. Well, now, the only way it could come back—

Mr. JAQUES: Mr. Chairman, I am not discussing Mr. Aberhart; I am discussing Douglas social credit.

Mr. TUCKER: —would be by taxation.

The CHAIRMAN: Mr. Jaques should not be interrupted except by his permission.

Mr. JAQUES: The difficulty with many people is this, Mr. Chairman, they cannot realize that money is created and it is destroyed through repayment. Every loan that we pay destroys a deposit.

The CHAIRMAN: It is just about 1 o'clock. The governor of the bank would like to say a few words.

Mr. JAQUES: Mr. Towers, I feel I owe you an apology. I started by saying that I was going to question you, but apparently I have ignored you entirely. I hope you will accept my apology.

Mr. TOWERS: I am only too glad. May I say just one thing. On pages 645 and 664 of the record I did use, in referring to savings, these words: "Surplus of goods over those which are consumed." I am very anxious to repeat what I said before, namely, that by surplus of goods I did not intend to imply a surplus of consumable goods on the shelves of stores or factories, but rather a surplus of goods of all kinds, and that surplus will mainly be represented by additional capital equipment of one form or another because that is in the main how savings are accumulated.

Mr. JAQUES: Well, just the same, Mr. Towers, the evidence is that it is accumulated at the expense of the community at large. We have unpayable debts and increasing unemployment.

Mr. TOWERS: I do not agree with the latter analysis, but in any event what I did want to make clear was that that surplus includes and in the main is represented by an increase in productive equipment or capital assets of some kind, and it does not refer to consumable goods.

Mr. JAQUES: Well, as I say, we have increased debts and increasing unemployment.

The CHAIRMAN: It is 1 o'clock, gentlemen; shall we adjourn until to-morrow morning? Mr. Deachman has the floor.

The Committee adjourned at 1 o'clock to meet to-morrow, May 25, at 11.15 a.m.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 23

THURSDAY, MAY 25, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

THURSDAY, May 25, 1939.

The Standing Committee on Banking and Commerce met at 11.15 a.m. The Chairman, Mr. Moore, presided.

Members present: Messrs. Clarke *(York-Sunbury)*, Cleaver, Coldwell, Deachman, Donnelly, Dubuc, Fontaine, Hill, Jaques, Lacroix *(Beauce)*, Macdonald *(Brantford City)*, McGeer, Moore, Quelch, Ross *(St. Paul's)*, Stevens, Taylor *(Nanaimo)*, Tucker, Ward.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

Examination of Mr. Towers was continued.

At 1 o'clock the Committee adjourned until to-morrow, Friday, May 26, at 11.15 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons, Room 277.

May 25, 1939.

The Standing Committee on Banking and Commerce met at 11 a.m. The Chairman, Mr. W. H. Moore, presided.

The Chairman: Gentlemen, we have a quorum now. Mr. Deachman, you have the floor.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

By Mr. Deachman:

Q. Mr. Towers, I think you have a copy of the record with you. I should like you to turn to page 86 of No. 3, which gives the general price indices of Canada and certain other countries.—A. Yes.

Q. There are some questions I want to ask you there with the object of measuring, if we can measure, the effect of the depreciation of the Australian pound on current prices in Australia. If you look at the bottom of page 86 you will see a table showing general price indices of Canada and certain other countries. In the first four years of that table, before the Australian pound declined, the price relationship between the two countries was fairly close, was it not?—A. Yes.

Q. Then, covering the years from 1931 to 1938, the period in which the Australian pound was at a discount, the Australian price level was higher than the Canadian price level.—A. Yes.

Q. Now, I attempted to measure this—it is perhaps not an accurate way, but it gives us the idea—by adding these eight years together and taking the average of them. I found that the price level difference between the two was $8\frac{1}{2}$ points.—A. Yes.

Q. Now, that would represent roughly 11 per cent; and what I want to ask you is this. The Australian pound during that period was depreciated to the extent of probably 20 or 25 per cent.—A. Twenty-five per cent on the pound sterling, and there were times during that period, of course, when the pound sterling was itself depreciated in New York.

Q. Yes. The amount of the depreciation of the pound was not reflected directly in the appreciated price of Australian products?—A. Well, the higher price level in Australia did not fully reflect, presumably either the depreciation in the Australian pound or, still less, the depreciation in the pound sterling.

Q. Quite. It is the general price level that we have at the bottom of the page?—A. It is, yes.

Q. But when we come to the price level of farm products I made the same test there and it gave an Australian level of 84 and $\frac{2}{7}$ths as against the Canadian level of 82 and $\frac{4}{7}$ths, or the Australian level was 1 and $\frac{5}{7}$ths or less than 2 per cent above the Canadian level, as far as farm products is concerned.—A. Higher?

Q. Yes.—A. Yes.

Q. There is one particular item to which I wish to draw your attention in the Canadian and Australian price comparison of 1934. The Canadian level is at 78 and the Australian at 89. —A. Yes.

Q. The Australian is at 89.—A. That is the ratio of farm products to the general index?

Q. Yes.—A. Yes.

Q. Well, that one item deviates quite considerably away from the normal deviation between the two.—A. That is the year of very high wool prices.

Q. Exactly. And I obtained from the Bureau of Statistics the price of wool at that time.

Mr. DONNELLY: What year are you taking as a standard?

Mr. DEACHMAN: 1929 is the base year. What is given here is the ratio of farm products to general index in both countries, Canada and Australia, so that the year in which the Australian price went sharply above the Canadian price was the year in which the level of Australian wool prices, according to the Bureau of Statistics, went from 8·72 pence per pound in 1933 to 15·84 in 1934.

Hon. Mr. STEVENS: Where?

Mr. DEACHMAN: Australian prices.

Mr. TOWERS: Of wool?

By Mr. Deachman:

Q. So that the apparent level of Australian prices was the result of something which was not a monetary influence?—A. That particular rise was, as you say, not the result of monetary factors.

Q. What was the cause?—A. The keen demand for wool.

Q. Well, I tried to locate that demand and I think I located it in part. There was a demand particularly from Japan because Japan was engaged in this Manchukuo incident and the Japanese soldiers in a cooler climate required more woollen clothing, and wool exports to Japan went up £4,000,000 sterling that year and reached the highest level that they had ever reached, while at the same time there was a decline from the previous year in the production of wool in Australia. So that apparently it was conditions outside of monetary factors. That would be right?—A. Yes, it undoubtedly was.

Mr. CLEAVER: The depreciation of sterling had nothing to do with it?

Mr. DEACHMAN: It was a factor, was it not?

Mr. TOWERS: Oh, it would be a factor, and was a factor in the general price level which is shown at the foot of page 86. It is not a factor in the ratio of farm products to the general price level.

By Mr. Deachman:

Q. No; but when we come to 1935, we find that the price of wool has slipped back to 9·75 pence. That is the price figure which I got from the Bureau of Statistics—in 1935; but we find correspondingly that Canadian wheat had gone up, so that there was a turn to more normal relationships, and again it was not a monetary factor?—A. No.

Q. Then, coming to the year 1936, the prices of wheat and wool were both up and the two levels came still more closely together. The remaining years show there is not much of a difference in the level.

Hon. Mr. STEVENS: But, Mr. Deachman, you are comparing the index ratio of farm products to the general price level.

Mr. DEACHMAN: Yes.

Hon. Mr. STEVENS: It has nothing whatever to do with the question of monetary policy because they are both on the same monetary basis.

Mr. DEACHMAN: If you are comparing them to a level which started in 1929, both countries on the same level—

[Mr. Graham Ford Towers.]

Hon. Mr. STEVENS: What I am getting at is this: these fluctuations in commodities will cause a variation in the index of farm products as compared with the general price level within Australia or within Canada.

Mr. DEACHMAN: Quite.

Hon. Mr. STEVENS: But it proves nothing as regards the effect of the depreciation of the pound in Australia or any depreciation of the dollar in Canada.

Mr. DEACHMAN: Oh, yes; it does prove this, that the non-monetary factors which were in existence at that time, and which caused any sharp variations in price, did cause a modification in the price level in the two countries.

Hon. Mr. STEVENS: Quite so.

Mr. DEACHMAN: What I am trying to do is simply this, Mr. Stevens: I am trying to get a proper conception of the relative importance of your monetary and non-monetary factors.

Hon. Mr. STEVENS: I know that is what you are after, but I am trying to point out—pardon my interruption—

Mr. DEACHMAN: Quite.

Hon. Mr. STEVENS: —I think Mr. Towers will agree with me, that a comparison of the agricultural price level with the general price level will not demonstrate, although there may be variations, that the depreciation of the pound sterling in Australia did not benefit the Australian agriculturists, whereas the maintenance of the Canadian dollar at a normal level gave no benefit to the Canadian agriculturists.

Mr. DEACHMAN: I am not denying the existence of a certain measure of benefit in taking your farm prices alone; but when you consider the other factors which must enter into it in Australia, and would enter into it in Canada to a still larger extent, it tends to minimize the importance of the monetary factor.

Mr. JAQUES: How do you separate them?

Mr. DEACHMAN: There is a distinct difference as between, for instance, an inflation and a decrease in production or between a depreciation in the pound and an increase of export demand from a country like Japan or other countries.

Mr. JAQUES: You mentioned that the demand in Japan raised the price of wool in Australia.

Mr. DEACHMAN: Yes.

Mr. JAQUES: In other words, Japan was spending instead of saving.

Mr. DEACHMAN: What Japan was doing does not alter the actual fact. I am considering what was done, and the sharp increase in demand there for Australian wool was an undoubted factor in altering the relationship of the price of that farm product to the general index.

Hon. Mr. STEVENS: In Australia?

By Mr. Deachman:

Q. We are dealing with Australia. The other point I want to deal with is this. On page 87 the price level of imported goods, Canadian figures, is given.

Hon. Mr. STEVENS: Imports to?

By Mr. Deachman:

Q. Imported goods into Canada. We are dealing with Canada now. From 1926 to 1929, in a period of good times, there was not much variation between the price level of import and export goods, was there?—A. No.

Q. Then from 1930 right straight on there has been a very sharp variation with your import goods at a substantially higher price?—A. Yes.

Q. Now, if our dollar had been depreciated in value would it have tended to increase that spread?—A. To answer that question one would have to know whether the depreciation in the Canadian dollar resulted in Canadian exporters offering their goods in foreign markets at a lower foreign price; in other words, giving away part of the apparent advantage of the depreciation.

Q. That is one factor, but it would also depend, would it not, on the difficulty of Canadians making payments, for instance, for imported goods in the United States with dollars which were depreciated in value?—A. That, of course, would have acted as a deterrent to imports. It might have changed the volume of imports. It would not have changed the index figure of import prices.

Q. If you decreased the supply would it not have tended to increase the price?—A. I do not think so, no.

Q. Well, if I were going to buy a suit of clothes in the United States and I had to pay for it in dollars worth sixty cents and the suit of clothes cost $30, would not my price be higher?—A. Oh, yes.

Q. Substantial volumes of goods are imported. Let us take the case of raw cotton. The purchase of raw cotton by our Canadian textile industries would be paid for in dollars of depreciated value and therefore it would take more dollars.—A. Oh, yes. The price of imported goods in Canada would rise by the amount of the depreciation.

Q. Therefore, in the case we have before us would it not tend to increase that spread which exists now?—A. As I say, I think only if Canadian exporters gave away part of the apparent advantage of the depreciation by lowering their foreign price.

Q. We dealt a moment ago with Australia, and Australia did not get the advantage of the full discount in the currency.—A. No.

Q. And the same tendency would probably be in existence in Canada.—A. Probably, in view of the competition of the times.

Q. Yes, I would imagine so. There is another one on page 88, the ratio in this last column. That is the ratio of export prices to imports, is it?—A. Yes.

Q. Well, note the relative levels of the Australian prices and the Canadian. The Australian prices of export commodities are relatively lower, but I imagine it should be so because of the fact that our exports were more largely exports of manufactured commodities. Would that be the case?—A. No, I should not think so.

Q. Are we not more largely exporters of manufactured products than Australia?—A. We probably have a slightly higher percentage, but we, too, are predominantly exporters of raw materials; or, of course, if one classifies newsprint paper as a manufactured export, you would be right.

Q. And scotch whiskey, which is another important export?—A. Yes.

Q. So that a comparison there would hardly be fair because of that other factor coming into it. I am through with that, Mr. Towers; all I wanted was to point out that there were certain inferences which seemed to support the idea that a depreciation of the Australian pound, while it may have been a minor factor, was not really an important factor, and that the important factors were the changes due to non-monetary influences.—A. I think those were the major factors. As was said when we were discussing depreciation, the major interest of the producer is the relationship of the price of his products to the price of other products within the country. Depreciation will probably not, will certainly not, after a time, of itself, give any benefit in that respect. The only benefit that will be retained, if any, would be in relation to that producer's debts.

[Mr. Graham Ford Towers.]

Q. Considering conditions in Australia, Australia would be more likely to benefit from such a process than Canada? We have our obligations to meet in the United States?—A. And they have very heavy obligations in the United Kingdom.

Q. Yes, but we would be paying our debts in a country which was on a higher value. There was a depreciation in the pound.—A. Even so, they had a 25% premium to pay on the payments of their debts in England.

Q. If the English pound were depreciated while the American dollar remained at par, it would be an advantage to them, relatively, more so than it would be in our position in paying the American dollar.—A. I do not quite follow that, Mr. Deachman.

Q. If in Australia they were meeting their obligations in England in pounds which had depreciated— —A. That is true, but still they had to pay a 25% premium.

Hon. Mr. Stevens: They maintained a 25 per cent discount below the depreciated sterling. That is correct, is it not?

Mr. Deachman: Not quite, I think.

Mr. Towers: Yes.

Hon. Mr. Stevens: Oh yes; because they went down to 2·74 there.

Mr. Deachman: Throughout the whole period. The figure I have here unfortunately is for the Australian pound in Montreal which would be quite a different matter from the pound in the United States.

Mr. Towers: Yes; because while sterling was depreciated here, it was still more so in the United States.

Mr. Deachman: In Australia they would not have as much importation of raw materials for the purpose of manufacture as we would have, would they?

Mr. Towers: I think not.

Mr. Deachman: No. There is a factor there.

Mr. Quelch: I should like to ask a question before you leave that. You are not desiring to leave the inference that the grain grower in Australia, as a result of the depreciation of the Australian pound below sterling, did not benefit considerably as compared with the grain grower here in Canada in the period from 1931 to 1936?

Mr. Deachman: Not from 1931 to 1936; but over the period of the depression for three or four years there was some margin of benefit to the farmers, if you leave out the other factors which were involved—that is, the increased cost of the goods which he bought. But I have just pointed out that as far as the relationship between the two is concerned, it could not help but affect the prices of the things that he bought.

Mr. Quelch: He exports practically all his grain and purchases only a portion of his goods from other countries. The proportion of the goods produced in Canada did not appreciate; they depreciated.

Mr. Deachman: You have your Canadian case where you exchange wheat for goods.

Hon. Mr. Stevens: Abroad?

Mr. Deachman: Abroad. There is not a very substantial margin unless the price of wheat is going to rise to the extent of the depreciation of your dollar; and against the tendency for it to do that in that period let me point out that your wheat was then down to a level, in the years 1931, 1932 and 1933, running from 55 to 65 cents; the pressure of Australian wheat and Argentine wheat was on the market pretty heavily. If we depreciated our dollar, there would be a tendency at once for the British buyer to come to

Canada for his wheat. I admit that. But the next day the chances are that in the Argentine market the price of wheat would decline or the Argentine dollar would decline to match that. Instead of operating to increase or to stabilize world prices, there would be a tendency to force prices of wheat down in other countries; and in the exchange of our products for foreign products, there would be a tendency for us to receive less by virtue of the exchange.

Mr. QUELCH: That would be so if all the goods which were produced in Australia were taken as a whole. But while the farmer received a higher price for his products that were exported he was able to buy Australian made goods at a relatively lower price and to that extent the farmer benefited.

Mr. DEACHMAN: I am afraid my friend has too great faith in the Canadian manufacturer. He charges the prices that he can charge; and when you shut out importation and competitive production, there is a tendency for him to raise his prices. Besides, he is compelled to raise his prices because, following the depreciation in the value of your dollar, he must pay a higher price for the product which he imports. Take the case of cotton, where the importation is 50 per cent of the value of the finished product, 50 per cent of our total finished cotton production. Then he would have to pay in depreciated dollars for half of his entire production costs.

The CHAIRMAN: Take tractors, for instance. You can illustrate the point with tractors which are not made in this country, and are particularly used by western wheat producers.

Mr. DEACHMAN: Quite.

Mr. QUELCH: On the other hand, you must remember that agricultural prices in Canada depreciated to a far greater extent than those of manufactured goods while in Australia agricultural prices increased to a greater degree.

Mr. DEACHMAN: No. Let us consider the Australian price level during the period of depression in Australia in terms of pence. Take your wool, which is to Australia what wheat is to this country. They had a billion pounds of wool production and the price during 1931, 1932 and 1933, the actual price, was the lowest it has been for any period that I can see in the record, unless you are going away back. It was just half. Wait till I see—It was slightly more than half of the 1929 level.

Mr. QUELCH: Yes; but some of that wool was sold to Japan, was it not?

Mr. DONNELLY: How does it compare with the world price?

Mr. DEACHMAN: The same thing is recorded in what I have in regard to Canada; it is not the world price, because I had difficulty in getting some averages. But the price in Canada—the index, moved somewhat closely along the line of Australia. It does not go back quite so far in the figures I have; but it parallels it to a certain extent.

Mr. TAYLOR: Have you not also contended that competition in the sale of grain would have depreciated currencies in Australia and the Argentine?

Mr. DEACHMAN: As a matter of fact, in a book which I was reading the other day, a recent book on Australia and New Zealand, the name of which I have forgotten, it was pointed out that the New Zealand currency had a tendency to force the Danes to reduce their currency values because of competitive forces in New Zealand.

Mr. TAYLOR: But you have also just now said that what wool is to Australia, wheat is to Canada.

Mr. DEACHMAN: Yes.

Mr. TAYLOR: That is so; it is a larger export.

Mr. DEACHMAN: Yes.

Mr. TAYLOR: In value than the wheat of Australia.

[Mr. Graham Ford Towers.]

Mr. DEACHMAN: Yes.

Mr. TAYLOR: So that apparently the wheat merchants, in order to get Australian markets, would have interfered with the exchange against the wool markets.

Mr. DEACHMAN: The very same process would affect wheat as affected wool.

Mr. TAYLOR: Is it not a fact that exchange develops in a country by reason of the acceptance of commitments?

Mr. DEACHMAN: Yes. What I am coming at primarily is this: Your non-monetary factors were apparently the determining price factor in the price of wool, and the exchange depreciation which had existed in 1931, 1932 and 1933 in Australia did not give them a rise in their price of wool.

Mr. TAYLOR: But I cannot entirely disassociate what you call the non-monetary factors from what you call the monetary factors.

Hon. Mr. STEVENS: You cannot do it.

Mr. DONNELLY: It is the price in the country we are talking about. Non-monetary factors, of course, affect the price of the goods throughout the world.

Mr. DEACHMAN: So does your monetary factors.

The CHAIRMAN: Mr. Donnelly has the floor.

Mr. DONNELLY: Monetary factors affect the price locally in Australia, but not in the world.

Mr. DEACHMAN: If it affects the price of wool in Australia, it will affect it in Canada, because we buy our wool from Australia; and, therefore, we will go to Australia for our wool and the prices will be affected there.

Mr. DONNELLY: Compare the world price with the price of wool in Australia. When the price of wool in Australia was going up and down, compare the world price with it and let us see what happened there, because it is an economic factor. I have always understood that one of the axioms was that a depreciated currency is an exporters paradise.

Mr. DEACHMAN: It is one of the things we have always heard but which will never stand the test of practice; and certainly would not stand the test of practice in a condition such as we had in 1931, 1932 and 1933 where you had Canadian wheat at, say, 54 cents in 1933.

Mr. QUELCH: In Canada?

Mr. DEACHMAN: Yes. That is your average for the year, according to the last Turgeon report.

Mr. QUELCH: What was it in Australia?

The CHAIRMAN: Order.

Mr. DEACHMAN: Here is the Canadian farmer. As my friend, Dr. Donnelly, well knows, he was bust and as hard up as could be in 1933, when the price was at 54 cents. If the monetary factor like the depreciation of the dollar had raised that price to 70 cents, would he not have pushed his wheat on the market? He certainly would have. When he could have done that, he was then selling but he was relatively on a higher price than what he was before.

Mr. DONNELLY: And the man selling wheat at that time did not sell at any price, you know that?

Mr. DEACHMAN: That certainly is a monetary factor.

The CHAIRMAN: Before we leave that subject might I suggest that the Governor deal again with the question which was raised some time ago, that exportation under a devalued currency is an export of capital.

Mr. TOWERS: Well in these circumstances, Mr. Chairman, there is a temptation to lower the foreign price and therefore to sell one's products on a

less favourable basis; that is, give more goods for less goods. That, as a matter of fact, is brought out in the table on page 88, the two right-hand columns, the figures showing the ratio of export prices and import prices. During most of the period from 1930 to 1938 these show an extremely unfavourable position so far as Australia is concerned.

Mr. DEACHMAN: Yes, but that Australia one perhaps might be in a measure—I do not know to what extent, but in a measure, the price level would be somewhat modified there because we are a large manufacturing country; it was only a short time ago that we were considered the largest manufacturing country per head of population in the world.

Mr. TOWERS: I realize that with such things as wool pulp and paper as an export factor you would get that result. However, perhaps from a more realistic point of view one should regard that as a primary material being exported.

Mr. DEACHMAN: That division there is extraordinary.

Mr. TOWERS: On the contrary.

Mr. DEACHMAN: Yes?

Mr. TOWERS: Yes.

Hon. Mr. STEVENS: Might I just interject there so as to round off this discussion on the statement of the Governor. Under a depreciated currency the exporter gets a temporary advantage. I am speaking now of the country as a whole, and the importer is penalized to a certain extent.

Mr. TOWERS: And the consumer, yes; and labour.

Hon. Mr. STEVENS: Yes; but a good deal of the effect internally would be this, that the goods imported would be distributed perhaps in larger measure to a class of people who are not the beneficiaries of the depreciated price on exports. Let me put this a little more simply.

Mr. TOWERS: It would be very hard to determine, I am sure.

Hon. Mr. STEVENS: Let me put it a little more simply. We export a large quantity of wheat.

Mr. TOWERS: Yes.

Hon. Mr. STEVENS: Which would be the main beneficiary, we will say, of a depreciated currency. The wheat producer would consume a much smaller proportion of the imported goods than would the city consumer.

Mr. TOWERS: I think the important factor would be that the wheat exporter would probably consume the total proceeds of his export, except for that portion which was destined for interest and debt payment.

Hon. Mr. STEVENS: Oh, I would scarcely agree with you, with great deference.

Mr. TOWERS: You mean that he would have been able over and above that to have certain savings?

Hon. Mr. STEVENS: Yes. I would think that the disadvantage to the importer would be passed over to another class inside of Canada than the exporter of wheat, for instance. That is, the exporter of wheat would get the advantage of the increased price because of the depreciated currency, and then the penalty that he would suffer because of the rise in imports would be less because a large proportion of the imports would be consumed by urban population.

Mr. TOWERS: Still would it not be true that he would suffer the penalty in respect of everything he bought?

Mr. QUELCH: He would benefit as to payment of debts.

Mr. TOWERS: For a certain period of time, yes.

[Mr. Graham Ford Towers.]

Mr. DONNELLY: Has not the price of goods had to rise in the same proportion, 25 per cent in Australia, the same as the price of money has gone down?

Mr. TOWERS: Probably not immediately.

Mr. DONNELLY: Has the Australian price of goods raised 25 per cent, or only 10 per cent?

Mr. TOWERS: It has risen by that lower percentage.

Mr. DONNELLY: It has not gone up the full 25 per cent?

Mr. TOWERS: No, nor apparently did the export prices.

Mr. DONNELLY: I would not be so sure of the export price on some goods like wheat. I would rather think it has, because Australia has been getting the world price for wheat; don't make any mistake about that. He has been selling with that 25 per cent difference, and he has been getting the world price for his wheat.

Mr. TOWERS: Certainly; but the relationship between the export price and the import price, which is what the farmer is really interested in; or else he is interested in the relationship between the export price and the general price level, does not show a very satisfactory position for Australia. Incidentally, I should have mentioned this, I think I may have myself referred earlier to a 25 per cent depreciation of the Australian pound; in fact, it is 20 per cent. There is a 25 per cent premium on sterling in Australia but that represents a 20 per cent depreciation.

Mr. DEACHMAN: It would not be so high as that when the British pound had sunk to the low level of some recent years.

Mr. TOWERS: Oh well, I am referring now only to the depreciation of the Australian pound versus sterling. The latter has been below parity with the U.S. dollar at times and at such times the depreciation of the Australian pound would have been considerably greater than 20 per cent.

Mr. QUELCH: It would be as low as 45 per cent at times, wouldn't it?

Mr. TOWERS: Yes, it must have been as low as that.

Mr. DEACHMAN: Now, I want to deal with a different matter, and I think in part it has been discussed before, but this is a somewhat different aspect of it. I am going to quote from an article which appeared in a recent issue of the *Economist* entitled "Full Employment"; and this is a paragraph arranged a little differently from what it is here in order to bring this out for you:—

> In the most widely accepted economic doctrines of the moment the moment the subject of full employment is one of peculiar importance. Until "full employment" is reached any increase in the monetary demand for goods has the effect not of putting prices up so much as of bringing into employment resources of labour and capital that were previously standing idle.

Now, I would like to have your opinion on that paragraph together with an explanation of this. They speak here of a condition in which we start from a situation such as we have to-day of considerable unemployment and abundance of capital and labour but looking at it from an economic standpoint is not the failure to employ the capital and labour which we have in Canada at the present time the result of either high cost of production or low prices; and therefore you must have either a reduction in costs of production to increase profits or an increase in the price level of the products produced which will call into activity the capital for the production of more goods.

Mr. TOWERS: If you will permit me, Mr. Deachman, I would like to prepare an answer to that. It is a large subject.

Mr. DEACHMAN: Well, here is the other section of it: The other part:—

> Until " full employment " is reached, so runs the theory, the creation of new demand by expansion of credit cannot result in what is commonly called inflation; on the contrary, it diminishes unemployment and, by increasing the national income, gives rise to savings that offset the original creation of credit.

And then he goes on with this:—

> But after "full employment" is reached any further expenditure out of credit expansion or money creation will not increase production or diminish unemployment; it will merely enhance prices and start the revolving spiral of inflation. In the layman's language, "full employment" is the point at which the financing of government deficits by credit expansion ceases to be "sound finance" and becomes "unsound finance".

Hon. Mr. STEVENS: That is until full employment is reached; that is the point, is it?

Mr. DEACHMAN: Yes.

By Mr. Deachman:

Q. Mr. Towers, I would like to have your comments on that.—A. Right. I will prepare them.

Q. Bearing on the other things I wanted to ask, here is a condition in which we are not calling on our resources of men and capital; and as I pointed out, in my judgment the trouble lies in higher costs and lower prices, that there must come adjustments between costs and prices before that is possible. Now, if this does not create an enhancement of price; if the added activity does not create an enhancement of price, then it fails in its object. Unless prices move up or costs come down the expansion will not take place.—A. You are thinking there, I expect, of certain groups of prices rather than the price level as a whole.

Q. I am thinking particularly of industrial activity, and I will give you an illustration. In 1937 there was a pretty fair volume of industrial activity in, say, the textile industry in the Dominion of Canada. Through conditions which arose, whatever was the cause, that demand fell off. In my view it is a lack of purchasing power or of markets for the basic industries of the nation and the relative spread in price levels coupled, perhaps, in some measure with high taxes, and my suggestion is that unless something could happen to adjust that relationship you are not likely to draw much capital into the textile industry at the present time. I am only using the textile industry as an example of other industries in the Dominion of Canada.—A. Yes.

Q. The other question bearing on that is one which we have discussed before. Could we increase activity by government spending? And the answer to that in part, as I suggest, is that private capital not feeling that conditions are such as to induce it to invest money in enterprises it is rather difficult to assume that the government could invest and make it profitable. Now, if the government did invest in industry or did make expenditures, in order to be of value to the country they would have to be, as I think you previously pointed out, of some direct benefit to the economy of the country. There is, as an example, the construction of a road which might have that effect or the building of buildings, which might conceivably, in some cases, be an improvement over those now in use and, therefore, enable us to conduct our governmental work with greater efficiency. That, of course, is conceivable. The point I want to ask is this: is it possible to find investments of that kind for the government which will not in the long run result in the actual loss of the capital invested—

[Mr. Graham Ford Towers.]

is it not very difficult?—A. Again, I should like to think that over. The test of profitability which is applied to private investments is not always applied to government ones.

Q. In what way does it differ?—A. For private investment to be encouraged they have to see an actual return—a probable return on the capital invested.

Q. Does not the government do the same thing?—A. A government, of course, can say that there is an indirect return; we will take a chance on that being beneficial for the country as a whole although we will not be able to see any direct return on this investment.

Q. Is not that taking a risk, and does not that risk involve— —A. It is taking a risk which private capital could not take.

Q. And does it not mean more than taking a risk; it may involve in a great many cases absolute certainty of loss. That is, there may be no economic return to the government from the investment and, therefore, the nation is poorer for having made the investment.

The CHAIRMAN: For instance, the Trent Valley canal.

Mr. DEACHMAN: That is rather touchy.

The CHAIRMAN: That is a touching illustration.

Mr. DEACHMAN: Yes, of course, there are scores.

Hon. Mr. STEVENS: We closed the debate on that twenty-five years ago.

Mr. DEACHMAN: I remember it.

Hon. Mr. STEVENS: So do I. It used to come up every year in the house.

By Mr. Deachman:

Q. There are times when we must recognize values that are not economic, and when an expenditure transcends the economic it may be worth considering; as, for instance, recent improvements in Ottawa. Nobody can say that there is a direct economic benefit from the building of the monument, but no one would say it has not a value.—A. Yes.

Q. But the question I am raising is, how far can a government go in spending money on enterprises which have not an economic value and must result in economic loss? Is not the burden for that economic loss passed on in added taxes and, therefore, increasing difficulty for the development of our basic industries?—A. The economy is worse off if a better alternative use for the capital could have been found.

Q. Is there an alternative to waste except the alternative of profit? That is to say, if we invest $100 million— I like to spend large sums when it does not cost me anything—and suppose that results in a failure to earn what it costs.—A. Directly or indirectly.

Q. Directly or indirectly. Then we have the maintenance of the enterprise or utility which we have produced, the roads, bridges, highways and buildings, to be added to that, and the net result at the end of the year is a loss. Now, would not the country be better off without it?—A. The country would certainly be better off unless one takes the extraordinarily pessimistic view that neither public nor private capital could have found better things to put that money into.

Q. Is not that the position in which we stand to-day, judging from the volume of investments, that private capital cannot find a place to use the money? Especially is that true in the case of the United States?—A. Yes.

Q. And, therefore, should not the fundamental approach be that by trying to remove whatever disabilities may exist rather than by trying to bring money into circulation purely by the construction of projects which are not necessary?—A. Yes, undoubtedly. If there are any actions which can be taken to remove the things which deter private spending, I certainly agree that should be done.

Q. That is where the concentration of effort should be?—A. Yes. I think they are realizing that in the United States, quite apart from anything they may be doing. I think there is a realization of that to-day.

By Mr. Quelch:

Q. You do not suggest that it is necessary that the government should be able to recover the money that they invest in capital works, providing those works are beneficial to the country? Private investment is not in that position; they must recover their money.—A. The government indirectly really does recover, because what benefits the country will benefit the government and the government revenue even although you can not see that this specific thing has done it. On the other hand, the national debt would rise, and history shows that the national debt steadily has risen since confederation. There may be slight recessions, but if you took a graph of the period since confederation, you would see that the national debt has steadily risen.

Mr. Deachman: I challenge that statement.

Mr. Towers: Yes.

Mr. Quelch: I said there may be recession, but over the period since confederation there has been an increase in the national debt.

Mr. Deachman: Take the position of England during the long period from 1920 to 1938. In that period there has been no increase in the national debt.

Mr. Quelch: Since when?

Mr. Deachman: 1920 to 1938. There is a slight increase if you take into consideration local loans that were guaranteed; but these loans are pretty well protected so far as England is concerned. There is a growth in their assets. If you take the deadweight debt without considering the assets, there is an increase.

Mr. Quelch: Take the gross national debt, there is an increase.

Mr. Jaques: There is a decrease in real wealth.

Mr. Deachman: In England?

Mr. Jaques: No, in Canada.

Mr. Quelch: There has been an increase in the national debt since 1920, if you take the gross national debt.

Mr. Deachman: I want to come to another item. Let us take, for instance, our tourist trade. The suggestion has been made that we should build roads to our parks and spend large sums on roads. How far can we go in the construction of roads for the use of tourists in three months of the year with the relatively small return on those roads in comparison to the volume of money expended?

Mr. Towers: I do not think I can express an opinion on that, Mr. Deachman.

Mr. Macdonald: They may be used more than three months.

Mr. Deachman: Let us take our tourist business. A large proportion of that is in the sale of commodities to tourists, is it not?

Mr. Towers: I do not know how much.

Mr. Deachman: Twenty-five cents on the dollar? Since 1924 there has been an increase in the importation of coffee. The importation of coffee has doubled because the Americans are coming over here in large numbers and drinking this coffee, but there is a corresponding debit.

The Chairman: Also Charlie McCarthy, you remember.

Mr. Deachman: It may be due to Charlie, yes; but there is a corresponding debit item for that, because we have had to purchase the coffee. There-

fore it is not all profit as far as the tourists are concerned. There is a limitation to the production which we can have from that industry.

Mr. JAQUES: What is the real cost to the country, of building, we will say, these tourist roads? Is it not the cost of the materials which we have? We have the material, we have the knowledge, we have the ingenuity, we have the labour. How does it cost anything but the sweat?

Mr. ROSS: We have to buy machines.

Mr. DEACHMAN: As far as the government is concerned, and as far as the consumer in the dominion of Canada is concerned, it costs him the amount of these materials that are put into the road, plus the cost of the wage bill and the corresponding amount put out for maintenance of the road.

Mr. JAQUES: We have the labour idle and we have the material lying idle.

Mr. DEACHMAN: Wait until I get a reply from Mr. Towers to my question, before you put that one.

Mr. JAQUES: Mr. Chairman, I do not want to get into a tangle with Mr. Deachman.

By Mr. Deachman:

Q. There is another item here which consists of a question asked by Mr. Woodsworth. The question is found at page 557 of the evidence and is as follows:—

> Questions by Mr. Woodsworth on the effect of the government borrowing \$50,000,000 from the Bank of Canada at 1/20th per cent per annum to use for public works.

On page 559 in the second paragraph, appear these words:—

> Active use of the increase in the volume of money would produce an internal situation which would force a decision between reversing the policy of internal expansion and depreciating the external value of the dollar.

Hon. Mr. STEVENS: Whose words are these?

Mr. DEACHMAN: I am quoting Mr. Towers' answer to Mr. Woodsworth. You say, "active use". That is to say, if that money went into active circulation that would be the result?

Mr. TOWERS: Yes; if the people who had the increased deposits or the people who were the holders of deposits were spending them actively.

By Mr. Deachman:

Q. Well, suppose it was a condition such as we have at the present time, where business is relatively dull and that money was expended in public works, the building of buildings, would it be likely to produce that result?—A. That has not been the experience of the last few years, no; the increased deposits have tended to be relatively idle.

Q. Well, then, if that money were borrowed and expended on public works, as Mr. Woodsworth has suggested, your idea is that the money that was expended in public works would simply return to the banks and be so much idle capital?—A. That would probably be the tendency under existing conditions it has been, anyway.

By Mr. Ross:

Q. Is not that the case in the United States to-day?—A. Yes, it is. Going back to the previous question I should note that a large increase and fear of further increases might unless the size of the increase, the further increase, result in a fright movement from currency.

By Mr. Donnelly:

Q. Does not that have a tendency to make cheaper money? When you have idle capital, won't interest rates come down?—A. They have, yes.

Q. But would this bring them further down?—A. Possibly it would.

Mr. DEACHMAN: Is there a limitation—

Mr. CLEAVER: Mr. Deachman, would you permit a question?

Mr. DEACHMAN: Wait until I get this one question asked.

By Mr. Deachman:

Q. Is not there a limitation to the ultimate result of the easy money policy? How far can you go in the easing of money rates? Suppose we doubled our total deposits today, how far would that go?—A. I could not possibly set a figure. There are two considerations there, I think, one is the difficulty of rates here going distinctly lower than in the United States. It might be impossible for that to take place; and the other is the question of desirability, the question of the extent of the sacrifice of the particular people affected.

Q. Mr. Towers, when you are speaking of easy money rates, are you not thinking rather of government money?—A. It affects other things as well, of course.

Q. Yes, but in loaning to a business enterprise there is something besides the pure interest rate; there is a certain element of risk, is there not?—A. Yes.

Q. Is that the main factor that causes the price of money to a business firm in Wingham, we will say, to be 5 or 6 per cent—probably 6 per cent would it not?—A. You are speaking now of bank loans?

Q. Yes.—A. It would probably be 5 per cent, I should say.

Q. Five per cent?—A. I was thinking, as a matter of fact, of long-term money; that is money which industries may get through bond issues or in some other form.

Q. Take your bank rate. That would be 5 per cent, and there is not much chance by further easy money policy to reduce it much below that, considering the amount that has to be loaned and the cost of operating?—A. Probably not much. In fact, what has happened in the last few years has made that rate on good risks come down from approximately 6 to say 5 per cent, or in some cases lower.

Q. I was going to suggest this: that if business conditions improved and a bank office in a country town could loan more money, might not that really lower that rate?

Hon. Mr. STEVENS: Likely to raise it.

Mr. DEACHMAN: That is what I am coming to.

Mr. TOWERS: That is probably true. In other words, if a much larger proportion of bank assets were in loans they could afford, other things being equal, a lower rate.

By Hon. Mr. Stevens:

Q. Why is it that that never happens, Mr. Towers?—A. For that, I have not any answer.

Q. It never happens, as you know. As soon as you get activity, up goes your rates.

Mr. DEACHMAN: That is precisely the point I was after.

Mr. CLEAVER: Mr. Deachman, I wonder if I could squeeze in my question now concerning public works?

Mr. DEACHMAN: Yes.

By Mr. Cleaver:

Q. Coming back to the discussion we had a moment ago on public works, do you not agree that as to all necessary public works, works which will eventually have to be built anyway in order to properly service the country, the government should enter the construction field and that these necessary public works could better be built during times of depression?—A. As you know, Mr. Cleaver, I have tried throughout to avoid expressing any opinion on a matter which is government policy. I think, in spite of the temptation to answer your question, I should stick to that, if you will permit me.

Mr. CLEAVER: All right, I shall not press you.

Mr. JAQUES: May I ask Mr. Towers a question?

The CHAIRMAN: Mr. Deachman has the floor.

Mr. DEACHMAN: Go ahead.

By Mr. Jaques:

Q. Would you admit that anything physically possible and desirable can be made financially possible?—A. Certainly.

Q. To-day it is the other way around; that only what is financially desirable is allowed to be physically possible.—A. No.

By Mr. Deachman:

Q. In connection with the question of Mr. Jaques, wait until I get this clear: Something which is physically possible is financially possible? Is that the contention?—A. Yes, physically possible and desirable.

Q. Yes, if you make it desirable it would have to be economically desirable.

Mr. JAQUES: I added "desirable."

Mr. DEACHMAN: That is all right.

The CHAIRMAN: Before you proceed may I make this observation in response to Mr. Cleaver's question? Generally in Europe to-day there is a school of thought, particularly in Finland, as to the desirability of carrying out public works in times of depression, but also of saving the capital for purposes in times of prosperity.

Mr. JAQUES: You bring about a depression by the savings, Mr. Chairman. The mere fact of saving brings about a depression.

The CHAIRMAN: No, no.

By Mr. Deachman:

Q. Did savings increase from 1921 on to 1928?—A. I certainly think they did, yes.

Mr. QUELCH: What about an expansion of credit?

Mr. TOWERS: The expansion of credit does not create savings.

The CHAIRMAN: The idea is to eliminate waste.

Mr. TOWERS: Savings are real things and are not money.

Mr. QUELCH: The issue of credit makes it possible to create real things. You cannot start a project unless you have something with which to start it.

Mr. TOWERS: You can borrow from the people's savings. The credit part of it is a very minor factor.

Mr. QUELCH: That can be accomplished by an expansion of credit.

Mr. TOWERS: But the savings are represented by real things. Any expansion of credit to finance an increased volume of business is a side issue.

By Mr. Deachman:

Q. In answer to a question which I asked a few days ago in connection with reducing rates of taxation rather than increasing expenditures, at page 559 you make this statement:—

> In so far as taxes are paid with money which would otherwise remain idle, I do not suppose that there would be any increase in private spending if the rates were lowered. Only to the extent that existing taxes are actually impeding private spending would one expect to obtain a stimulus to increased private activity.

What I want to get at is this: Our urban population in the Dominion of Canada is 5,572,000, not all on farms but really relying upon the farms.

The CHAIRMAN: Urban or rural?

Mr. DEACHMAN: Rural population. The rural population is 4,800,000. Thanks, Mr. Chairman.

Mr. ROSS (St. Paul's): What is the urban?

Mr. DEACHMAN: 5,572,000. That is from the 1931 census. It would be higher than that now, but it is all right for the question I am asking.

By Mr. Deachman:

Q. Among your rural population you admit, I think,—everyone does—that there has been a very strenuous time since 1930.—A. Yes.

Q. That the farmers have not been able to keep up their maintenance as they did prior to that time, and therefore to an extent that there was any relief from the tax burden so far as the farmer is concerned, would it not find its way into expenditures rather than into savings?—A. Probably.

Q. In connection with personal income tax, there are 39,000 people in Canada who had taxable incomes in excess of $4,000. We have about 8,000,000 people in Canada who are twenty-one years of age or over and who might pay income tax if they had the income. In that case, do you think that where the income is less than $4,000 it would go to add to savings or would it increase expenditures?—A. That is a very difficult question to answer.

Q. Well, if we took the case of a man with a family whose income was less than $2,000, there would not be much increase in savings?—A. No.

Q. And taking into consideration the standard of life in cities, if a relief of taxation fell upon those with incomes under $4,000 there would be a tendency, would there not, to express it in a higher standard of living rather than in savings?—A. Yes.

Q. I think so.—A. I think that is particularly true in the $2,000 and under class. Between $2,000 and $4,000 there might be a tendency to put a little more aside.

Q. That is absolutely true in so far as the farmer is concerned. Then I quote again:—

> Very seldom is it true that depression is spread evenly over the fiscal area affected by any given tax.

That was the suggestion I made. A reduction in sales tax was what I had in mind.

> Therefore the benefit, if any, from the tax reduction tends to be diffused and to a considerable extent go to sections which relatively speaking are not in need.

In the construction of public works, the benefit is usually spread in the cities, is it not?—A. I have no way of answering that, Mr. Deachman.

Q. In general our great public works, if they are large public works, are made in the city—

[Mr. Graham Ford Towers.]

Mr. MACDONALD: (Brantford City) Directly.

By Mr. Deachman:

Q. Yes, directly. And it is natural that they should be because most unemployment exists in the cities.—A. It is concentrated in the cities.

Mr. CLEAVER: Are you not referring to direct labour? There are indirect benefits to quarries and sandpits.

By Mr. Deachman:

Q. We can come afterwards to the indirect, which would consist of the production of commodities which might be used, but which could be produced in the cities. So what is happening in connection with public expenditure is that the benefit is not diffused throughout the country—and we have been discussing the situation as far as the farmer is concerned—and therefore those in greatest need are not getting the benefit from a policy of public works. —A. Is that necessarily so, Mr. Deachman?

Q. I would think so. Going back to my figures in regard to rural population, it is pretty hard to measure the benefit of a new post office in Toronto or the new station of the C.N.R. in Montreal for the farm population of the dominion.—A. Perhaps that is true of certain specific public works. But there may be, I suppose, others such as roads, forestry projects or things of that kind which are more widely spread.

Q. Again it would be hard to trace the benefit back to the agricultural population which has suffered the most, would it not?

Mr. CLEAVER: Would not the labourer spend at least a third of his wages in food? And would that not benefit the farmer, Mr. Deachman?

Mr. DEACHMAN: You are going pretty far on that, Mr. Cleaver; because I doubt very much whether, in the expenditure for food, you would get a great increase in consumption of Canadian products, because the average worker now gets his food anyway, and these are the standard farm products of the dominion of Canada.

Mr. CLEAVER: Does the man on relief get the same quantity of food as he would supply to his family if he was working?

Mr. DEACHMAN: Not quite the same quantity, and not quite the same quality.

Mr. CLEAVER: Not by any means.

Mr. DEACHMAN: Your prices for your products are determined very much by the export market, and there is very small opportunity to infuse it there.

Mr. TAYLOR: Is it not a fact that the farmer to-day sends his cream out and lives on the skim milk?

Mr. JAQUES: Yes, he does.

Mr. DEACHMAN: That is only a question of his relative poverty; and is excellent support for my contention that it is the farmer who has suffered, and for relieving the taxes which fall upon this class of people.

The CHAIRMAN: Mr. Ross has a question.

Mr. ROSS (St. Paul's): I was just going to say that a good deal of the cost of food which the urban purchaser gets is a question of services; and really the farmer does not get the full benefit of the increase.

Mr. DEACHMAN: Any increase of expenditure on public works could not affect the farmer to any very great extent. What I am trying to point out is that a certain reduction in taxes could be made to fall upon that class which now has an income which is so low that the saving could not express itself in increased bank deposits, but would lead to increased purchase of goods. I

want to come to the other question: Should Canada use the available surplus in the balance of payments to increase imports rather than repatriate debt? There is a point in your reply there, Mr. Towers, on which I should like further information. You say: "In other words, on the whole, Canadian consumers were importing a somewhat larger amount of consumable goods during 1937-38 than in 1926-29." That is to be found on page 561.

Mr. TOWERS: Yes.

Mr. DEACHMAN: While it would be difficult to trace and prove it, I am inclined to think that statement is quite correct. But I come back again to my farm population. My contention is that they were able to continue their purchasing power by neglecting maintenance and depreciation; and that, therefore, if we could do something so that they could have purchasing power, it would enable them to maintain their buildings in normal condition. It would be very important. I quoted the other day in the house a statement by Hon. D. G. McKenzie, who was former Minister of Agriculture in the province of Manitoba and later Minister of Mines and Resources, who said that because of lack of purchasing power, the farmers of Canada were unable to buy their normal machinery requirements to the extent of $200,000,000 during the depression. What I am trying to reach is this: Would it not be possible for us, instead of repatriating our bonds which have been sold abroad, to be able to bring back the goods which the farmers need and the people of this country need in restoring the productive machine to its normal standard of efficiency?

Mr. TOWERS: I should certainly prefer to see a greater level of internal activity and less repatriation.

Mr. DEACHMAN: How can we bring that about?

Mr. TOWERS: There you come right to the question of internal prosperity. Repatriation is, to quite an extent, the product of a low internal level of activity. It does not cause the low level; but that level being low, it then becomes the case that there are surplus foreign funds available; and lacking anything better to do, they turn to the repatriation of debt.

Mr. JAQUES: Why could we not do both?

By Mr. Deachman:

Q. Is it not also due to two things, the disequilibrium of the price level and the maldistribution of wealth?—A. Those things enter into that first question of yours, do they not, which we were to try to answer?

Q. Yes, that is true. There is another point here that I have marked:—

> This factor and also the fact that the future markets for our agricultural products, which have declined in importance, remain uncertain because of the existing world trend towards nationalism and self-sufficiency, are two arguments which favour caution when considering the question whether Canada should live on a scale which would absorb all our present export income.

Would you not think that if our machine, our industrial equipment and our agricultural equipment is depreciating, it would be highly advisable to have it restored, as a means of increasing the efficiency of operation, reducing the cost and increasing production?—A. It is highly desirable.

Mr. CLEAVER: How would you propose to step up the purchasing power of the farmer?

Mr. DEACHMAN: I dealt with that in the previous question, and I am unable to convince the government that I am right. When I fail to do that, I am a little afraid that if I ask any further questions, Mr. Towers would not be willing to go any further.

[Mr. Graham Ford Towers.]

Mr. CLEAVER: Other than the reduction of taxation, have you any other suggestions?

Mr. DEACHMAN: The process which we have been carrying out of trying to break down the barriers of world markets to further export is one thing. But as long as the present condition exists—I, of course, protest against the existence of a sales tax at the height it is to-day.

Mr. QUELCH: The sales tax would benefit all classes of society. If you are just trying to benefit the agriculturist, realizing that they are the ones who are penalized most, would it not be a more direct way of doing it to bonus the agriculturist, to benefit that one class?

Mr. DEACHMAN: I am quite willing to come to the question of bonuses, but you can reduce that to an absurdity very quickly, I think. We try our best to do it. We start with bonuses to the manufacturer. We go on from that to bonuses to the farmer.

Mr. QUELCH: To bring about parity.

Mr. DEACHMAN: Yes, to bring about parity; and when you have brought parity among them all, you have reduced the whole thing to an absurdity. A further thing is—

Mr. QUELCH: Before you leave that, would you not think it would be of material assistance to the farmer if means were devised for marketing his products so that he would receive a greater share of the ultimate selling price?

Mr. DEACHMAN: I have no doubt about this, that so far as the farmer is concerned, if he is on an economic basis which permits him to see above the level of his own breakfast table, he will eventually, by co-operative means and otherwise, take care of his marketing; and all the government needs to do as far as that is concerned is to keep from getting in his road. But I do not think that the government need to go into the business nor should it do as a government enterprise what is in reality the farmer's own business.

Mr. CLEAVER: Should not the government make facilities available to the farmer?

Mr. DEACHMAN: Quite.

Mr. CLEAVER: To permit marketing of farm products?

Mr. DEACHMAN: Quite. I am quite willing for that.

Mr. TUCKER: Might I ask if you have given consideration to this, Mr. Deachman? It arises out of what you have just said. You mentioned the fact that governments to encourage manufacturers may do so by giving them a deviated income tax. But that would not work in the case of the farmer because the farmer does not get a big enough income to pay an income tax. I wonder if you have given any thought to the question of compensating the farmer for the extra price he has to pay for his farm implements on account of the tariff, in view of the fact that it seems impossible to get the tariff off farm implements?

Mr. DEACHMAN: One of the difficulties which you face there is the fact that in the United States they have been trying to make progress by deliberately raising prices, and the price of agricultural implements now in the United States has gone up, and the removal of the tariff on that particular item is not by any means as important as it formerly was.

Mr. TUCKER: No. I understand on many implements the difference in price between comparable points, take Dakota and Manitoba, is just the amount of the tariff. Now, it seems to me important in view of the position of the rest of Canada, it seems to me advisable to suggest if we are going to help the manufacturers in addition to the help they have already received to

improve their equipment then similar consideration should be given to helping the farmer to improve his equipment by paying him the difference in the price he has to pay owing to the tariff policy of this country whenever he buys farm implements and various forms of farm equipment. I just wondered if you had any explanation of that.

Mr. DEACHMAN: We have to consider certain things as they exist, and you and I both agree that they are wrong from our point of view—the whole tariff business; but if we are going to have tariffs I can hardly reach the point of saying that we should have absolutely free trade in connection with one industry and leave other tariffs at rates which are preposterously high in these other industries. Agricultural implements are not by any means all that the farmer buys, remember that.

Mr. TUCKER: I know, it is only a small percentage of what he buys.

Mr. DEACHMAN: You are asked to provide for the farmer by other means that I think would be even more efficient than lowering the tax upon his agricultural implements.

Mr. TUCKER: What suggestion would you make? I understood you to make the suggestion that the sales tax be taken off things for him. He has to buy many things and there is a sales tax on them all. The Minister of Finance says there is no sales tax on implements.

Mr. DEACHMAN: That arises from the misconception that the farmer buys nothing else but agricultural implements. If you said that he bought nothing it might be pretty close to the truth; but at the same time any of the things that he buys are the things that he must pay sales tax on. The sales tax is one factor, it is one factor, then there is this other factor—

Mr. MACDONALD: There is no sales tax on farm implements.

Mr. DEACHMAN: But he has to buy clothing, boots, shoes, and all that sort of thing; no, not on farm implements, but on all the rest of the things he has to buy. There is a sales tax on everything else he buys, and that includes clothing, boots and shoes and a lot of other equipment; but the removal of the sales tax would be an effective means. But, I come back to this original point—

The CHAIRMAN: Order.

Mr. MACDONALD: Guaranteeing him a price for his wheat would be of some assistance.

M. QUELCH: Surely.

Mr. TAYLOR: Arising out of these observations, Mr. Deachman; do you consider that it is consistently possible for the primary producer to receive satisfactory prices for his products in a competitive economy; isn't he the one who ultimaetly suffers?

Mr. DEACHMAN: I am just going to answer this one question and then I am going to get back to the original subject. So long as we continue to increase the rigidity of our economic structure—and we are continuing to do it and passing more legislation day by day for intensifying the rigidity that exists there and creating new ones—and so long as that condition continues unquestionably the basic producer must suffer; and I suppose he will continue to suffer until such time as he realizes that his will must be expressed instead of the will of those who ask for these rigidities.

By Mr. Deachman:

Q. I am coming back to Mr. Towers' answer to my second question—that is on page 561.—A. Yes.

[Mr. Graham Ford Towers.]

Q. "If it were considered that the low level of foreign demands for many of our exports were permanent, then there would be a case for revamping the Canadian economy to enable us to provide more of the things we need at home. The heavy cost of such a program makes it impractical for dealing with a temporary situation"; that is, we could not attempt to do this, to revamp our economic structure, if we thought that there was a future market for Canadian products and a future development for Canadian agriculture; that is right even there?—A. Yes.

Q. Now, " In general, any action which would profitably increase our export income or reduce our payments abroad would be a strengthening influence. In this connection it is worth noting that a reduction in foreign debt results in a corresponding decrease in our obligations payable to other countries "; the only thing I want to point out there, Mr. Towers, is that it does seem to me that so far as this balance that we have now, a balance of payments in our favour—if it were possible to do it by any means, might very well be devoted to the idea of maintaining Canadian economy in a healthy condition—I refer to the maintenance and upkeep of our equipment rather than to buying back these foreign securities; have you any comment to make on that?—A. Only what I said before, that I would be glad to see a higher lever of internal activity and a lower amount available for debt repatriation.

Q. Quite. I come to the next question which arises out of the situation in England, and it may have been dealt with before, I am not sure. You have the stabilization fund in connection with the Bank of Canada?—A. There is a thing called an exchange fund which was set up by legislation in 1935.

Q. But it has not been used?—A. There is a section in the Act which I think was one of the ones which was filed here in another section of this report.

Q. Yes?—A. It gives the Minister of Finance permission to use the exchange fund for the purchase and sale of gold, foreign exchange, and so forth. That is section 6 of the Act, and sub-section 3 of that section says, "This section shall not come into force until a date to be fixed by proclamation of the Governor in Council published in the *Canada Gazette*." I am not aware that there has been any such Order in Council.

Q. Would it be of any material value at the present time?—A. Not that I can see, no.

Q. Conditions might arise in which it would be of use?—A. Yes, I think they might; and I think that was in the thought of the government when they first set it up.

Q. There is a very large stabilization fund in England?—A. Yes.

Q. Is the use of a stabilization fund inflationary in the long term or in the short term?—A. Not in the way they have operated it in England, no.

Q. It could be, but it would not likely be; is that the answer?—A. No. Starting as they did in England and borrowing the money for the purpose of the operation of the fund there was nothing inflationary in the system from the start. If it had been started by an authority to the central bank to purchase foreign exchange that, of course, would have had a monetary effect.

Q. Quite. As it stands to-day it has not been an inflationary influence in England?—A. No, it has not.

Q. Has there been any inflation in England?—A. Since when?

Q. Since England went off the gold standard?—A. No, I would hardly say that there has.

By Mr. Taylor:

Q. Wasn't the period about 1922—I am not sure that I am correct about my dates, but it was around 1922—was not that when the U.S. government drew the attention of the British government to the fact that their Bradburies were exceeding the normal figures—£327,000,000. I am speaking only from

memory. Was not that a declared condition of inflation, and did not the British government thereafter steadily reduce the amount of those notes in issue?—A. I do not know that they did. I do not recall a reduction. Because of business conditions there may have been some reduction in the outstanding note issue.

Q. I thought it was definitely as a result of the representations made by the Federal Reserve Bank and the monetary authorities in the U. S.?—A. I do not think they ever made any representations.

Mr. TAYLOR: Of course, it is a long time ago.

Mr. DEACHMAN: It does not work out in fact, because the circulation of currency notes in England stood at £283,000,000 in March of 1923, and they stood at £292,000,000 in 1928 when they disappeared into the Bank of England; and in all that time the highest point they ever reached was £297,000,000, in 1925. It was a very small change.

Mr. TAYLOR: I think it was prior to 1922.

Mr. DEACHMAN: The figures only go back to 1923—all I have here.

Mr. JAQUES: Did not England go back to the gold standard in 1921?

Mr. TOWERS: 1925, was it not?

Mr. DEACHMAN: The two circulations were combined in 1928.

By Mr. Deachman:

Q. The other question I wanted to ask was: in regard to note circulation of the Bank of England has there been a material increase?—A. I think I have the figures here. Yes, there is. Say, from 378 million pounds in 1934 to about 485 million pounds now.

Q. That would be due to the normal increase in business?—A. Over and above that there is considerable hoarding of English notes on the continent.

Q. So that England's increased expenditures up to last year have been largely a question of borrowing in the ordinary way, have they not?—A. No, not even that—expenditures have been made from revenue, because until the rearmament program the British debt has not been going up.

Q. That is really what I wanted to say. I was looking up their debt. Between 1920 and 1938—if you will leave out the American debt—I am leaving it in suspense for the moment—the debt of England was six billion, seventy hundred and eighty million pounds in 1920 and six billion, four hundred and forty-five million pounds in 1938.

Mr. JAQUES: How much had they paid in between?

Mr. DEACHMAN: The reduction in that period would be roughly £335 million. I do not know whether or not the American obligation should be counted. If that is counted in, the change will be almost the same, because it would be taken off in both cases. There is, however, this other factor that certain loans have been guaranteed—that is loans for local governments and items of that kind, and probably some foreign loans are involved in this, which amount now to roughly between seven and eight hundred million pounds. So that if we take that into consideration, these guaranteed loans, and call them an actual liability of the British government instead of a contingent liability, there is an increase—

Mr. TUCKER: Where do you get those figures from?

Mr. DEACHMAN: I will loan it to you. This is the "National Debt" of England. If you want to borrow it you can have it. I took it from somebody else in the first place and you can take it from me. It is a statistical abstract, 1920-36, and is printed by His Majesty's stationery office in London.

Mr. CLEAVER: I wonder if I could complete one or two questions?

[Mr. Graham Ford Towers.]

The CHAIRMAN: Mr. Deachman has not finished yet.

Mr. CLEAVER: My questions arise out of governmental construction work.

Mr. DEACHMAN: I think I have finished. I thank you very much, Mr. Towers.

Mr. CLEAVER: Before you leave, Mr. Deachman, I wanted to direct a question. I have before me now the report which appeared in the Montreal Daily Star of May 24th, dealing with a recent survey made of one hundred families in the city of Toronto. That survey discloses the fact that children in those Toronto families—I refer to children on relief—were found to be getting one-half of the proper amount of bare necessaries, which means a proper diet. Lack of adequate supply of milk was one of the principal reasons for this deficiency. The children should have been drinking a pint and a half of milk a day and actually were securing only one-third of a pint. Now, if government works put wages into the hands of the city workers it might have had a direct benefit to those families in supplying the increased quantity of milk and other things.

Mr. DEACHMAN: Well, if the money wage went directly into the hands of the people whose children needed that milk; but I think the money wage paid out might go to some of the very high class labourers who are probably charging a very high rate and do not need it, and the scarcity of milk—I would point out another thing, and this is in answer to this talk of scarcity in the midst of abundance, and it deals with the matter—the British Medical Association in in a recent report makes this statement:—

> To reach an all-round standard of good nutrition our consumption of milk would need to rise by 80 per cent, of butter by 40 per cent, of eggs by 55 per cent, of fruits by 120 per cent, and of vegetables by 85 per cent.

As the standard of living in the United Kingdom is very much higher than the standard of living on the continent of Europe, mainly as far as the leading countries are concerned, then I venture to suggest that in order to bring the continent of Europe up to a proper standard of health, from a nutritional standpoint, it would be necessary to double the consumption of foods on the continent of Europe.

The CHAIRMAN: Some foods.

Mr. DEACHMAN: Well, I am speaking now of the continent of Europe because their demand would be much higher. These figures deal with England. This is from the report of the British Medical Association as published in the Economist of May 6, 1939.

The CHAIRMAN: I think I know the report. Now, what does the report say in reference to energerizing foods, for instance wheat?

Mr. DEACHMAN: It emphasizes that these are the protective foods which are needed particularly in England, and if you would concentrate on England as far as these foods are concerned—for instance, eggs, butter, cream, milk especially, and so on—they would very probably be largely produced in England and the increased time and attention of the labour to the production of these foods might for that reason leave them open to buy the Canadian foods which we would like to supply.

The CHAIRMAN: But the report goes on to say—this is a digest of it.

Mr. DEACHMAN: That is what I am coming to.

The CHAIRMAN: So far as the wheat, for instance, is concerned, they have a sufficiency for nutritional purposes.

Mr. DEACHMAN: Yes, it could be grown there, but if you turn your attention to the production of those other foods, it would mean that they would

probably drop off in the production of wheat, which is not economically profitable in England, providing you get the other step which is the most difficult of all, the keeping of men from cutting each other's throats.

The CHAIRMAN: The farmers say they have to grow wheat in order to have rotation of crops.

Mr. ROSS: I have one question.

The CHAIRMAN: It is 1 o'clock, but Mr. Ross says he has a question to ask.

By Mr. Ross:

Q. Can you control the interest rate level in this country? Would you be able to control the interest rate?—A. It would be foolish to say there is an absolute and definite control.

Q. I mean to say, you could control it for the good of the country. That is what I mean.—A. One could have a strong influence on it.

Mr. CLEAVER: A very strong indirect control.

Mr. TOWERS: Yes.

The committee adjourned at 1 p.m. to meet again to-morrow, May 26, at 11.15 a.m.

SESSION 1939

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

Respecting the

BANK OF CANADA

No. 24

FRIDAY, MAY 26, 1939

WITNESS:

Mr. Graham Ford Towers, Governor of the Bank of Canada

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

FRIDAY, May 26, 1939.

The Standing Committee on Banking and Commerce met at 11.15 a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Baker, Clark (*York-Sunbury*), Deachman, Dubuc, Fontaine, Hill, Jaques, Kinley, Macdonald (*Brantford City*), Moore, Quelch, Ross (*St. Paul's*), Tucker, Taylor (*Nanaimo*).

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

The Committee continued its consideration of the annual Report of the Bank of Canada, Mr. Towers being further examined.

At 1 o'clock the Committee adjourned until 4 p.m.

AFTERNOON SITTING

The Committee resumed at 4 o'clock.

Members present: Messrs. Cahan, Deachman, Donnelly, Dubuc, Hushion, Ilsley, Jaques, Kinley, Landeryou, Macdonald (*Brantford City*), McGeer, Martin, Moore, Quelch, Taylor (*Nanaimo*), Tucker.

Examination of Mr. Towers was continued.

During the course of his examination Mr. Towers filed answers to questions by Mr. Cleaver and Mr. Deachman, and a letter written by Mr. Henry Morgenthau, Jr., Secretary of the Treasury of the United States, to Senator Robert F. Wagner.

Ordered, that these answers and Mr. Morgenthau's letter be incorporated in the evidence.

At six o'clock the Committee adjourned until Monday morning, May 29, at eleven o'clock.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

ROOM 277, May 26th, 1939.

The Standing Committee on Banking and Commerce met at 11.15 a.m. The Chairman, Mr. W. H. Moore, presided.

In attendance: Mr. Graham Ford Towers, Governor of the Bank of Canada.

The CHAIRMAN: Order, gentlemen. Is it the pleasure of the committee that Mr. Ross (*St. Paul's*) have the floor this morning and then be followed by Mr. Macdonald?

All right, Mr. Ross.

Mr. ROSS: Mr. Chairman and Mr. Towers, I have been listening to some of the views expressed by the various members and I think that instead of questioning Mr. Towers, I should like to read what I have here and have you comment after I have read it as to whether I am right or wrong in what I am saying. I could easily do it by way of questioning, but I think it would be easier and quicker for me to say what I have to say and then you can comment.

The CHAIRMAN: Suppose for the purpose of the record that we assume that silence does not necessarily mean consent.

Mr. TOWERS: I think that might be helpful.

The CHAIRMAN: Does not necessarily give consent.

Mr. ROSS: That is all right.

The CHAIRMAN: That is just for the purpose of the record.

By Mr. Ross:

Q. There have been some views explored, during the discussions of the committee, and I think the following is a fair summary of them. I would ask Mr. Towers if he thinks I am right when I have finished. I should like to state these views first. It has been stated that the country continues to suffer from the depression because the government endeavours to finance its recovery efforts by collecting taxes or borrowing people's savings. Is that right?—A. Because the country continues—

Q. The view has been expressed that the country continues to suffer from the depression because the government endeavours to finance its recovery by collecting taxes and borrowing people's savings.—A. I would find it very hard, so far as I now recall, to say that that was a definite expression of opinion.

Q. I do not mean it is an expression of opinion by every one of the members. —A. No, I know, but even if one takes individual cases I find on going over the record that although various things, including the one that you mentioned, are suggested as possibilities, I find it very difficult to say that such and such a person has specifically expressed that view.

The CHAIRMAN: Let the record speak for itself.

Mr. ROSS: I think so. It has been said further that it would achieve more success if it were to adopt a managed currency and finance its program by means of "controlled inflation." I gather these only from reading the evidence. It is also said that many nations the world over have found a new lease of

national strength and new recovery of internal prosperity in the management of their own currency. It has been said that Britain provides an example of this. There government has taken the control of currency and credit away from irresponsible bankers and placed it where it properly belongs, under responsible government. The government, in the last analysis, rules the Bank of England and the result has been great economic improvement in Great Britain; she has "spent her way to prosperity." In other words, I think that has been stated too.

Mr. JAQUES: We won't state that.

Mr. TOWERS: I think that in reference to Great Britain it has been brought out that her expenditures, at least until rearmament came along, have been financed almost entirely from taxation, so that the example of Great Britain has apparently been one along—

Mr. ROSS: No matter whether it has been done out of capital or out of taxation, I think it has been said that the example of Great Britain is one that shows she has spent her way to prosperity.

Mr. TOWERS: I do not recall that, but perhaps you are right.

Mr. JAQUES: We won't admit the prosperity.

Mr. ROSS: I am not saying that you do. It has been said that Canada too must adopt a policy of controlled inflation directed by the government. The Bank of Canada Act, 1934, provided a basis for such a move. (1) The Bank of Canada can issue legal tender on a 25 per cent gold basis, although the requirements of gold backing may be suspended in an emergency. (2) The Bank of Canada has the exclusive right to issue legal tender currency. (3) The chartered banks must maintain a reserve against deposits of only 5 per cent in Bank of Canada notes or deposits. As a result of these measures, there is a tremendous volume of unused credit available in Canada, estimated at $13,200,000,000. Is that correct?

Mr. TOWERS: I think these were the figures which were referred to before.

Mr. ROSS: This volume of credit arises first from the fact that while the Bank of Canada has power to issue four times its gold reserve in notes, it has actually almost a 50 per cent gold reserve against its note issue; and secondly, from the fact that whereas the banks may issue twenty times their holdings of these notes in credit money, they have only issued about ten times their reserves. The amount of gold reserves above the legal limit would permit a credit expansion of about $7,800 millions. That is right, roughly right?

Mr. TOWERS: I do not remember the figures, but I know—

Mr. ROSS: The amount of Bank of Canada notes and deposits held by the chartered banks would permit a further increase in deposit liabilities of $2,900,000,000.

Mr. TAYLOR: Mr. Chairman, I should like to question that statement about the 13 billions. How is that possible?

Mr. ROSS: I am just reading it.

Mr. TOWERS: I think what I would put in there, if I may, is that, as I think we all recognize, those are theoretical figures. Their only purpose is to indicate that the legal possibilities of expansion are very great indeed.

Mr. ROSS: I am not advocating this.

Mr. TOWERS: I realize that.

Mr. ROSS: I am simply stating that it has been stated, as far as I can gather by some members of the committee. I wish to criticize it afterwards and I shall show you how it is made up if you wait a minute.

Mr. TAYLOR: I know, but I am questioning the whole thing.

[Mr. Graham Ford Towers.]

The CHAIRMAN: So was Mr. Ross. Mr. Ross was questioning the whole thing.

Mr. ROSS: I will question it myself. The amount of savings which it is claimed are all available for the purchase of government securities is $2,500,000,000, so that makes a total credit available of $13,200,000,000. It has further been said that in Canada the control of this potential currency has been handed over to the Bank of Canada and the privately owned chartered banks; that the issue is no longer inflation, for we in Canada adopted inflation in 1934. The real issue is: shall our inflated currency and credit be controlled to serve Canada, or shall it remain a concession to Canadian bankers?

It has been mentioned as particularly deplorable that the banks can expand $1 Bank of Canada bills into $20 of bank credit money, and exchange that type of money for interest bearing government bonds—that the chartered banks can exchange mere bookkeeping entries for government bills bearing interest and government bonds. It is, therefore, found not surprising by some that banks hold $1,162,000,000 of government securities and that these holdings—That is right, is it not?

Mr. TOWERS: Roughly, yes.

Mr. ROSS: These figures are rough?

Mr. TOWERS: Yes.

Mr. ROSS:—and that these holdings have increased by $478,000,000 since 1934, when this concession was granted. Parliament has authorized the chartered banks to create their own buying power with a bookkeeping system which they use to buy government bonds.

The main thread of this argument is that Canada needs inflation, that it is possible, due to the great volume of unused credit available and that it should be under the control of the government. This is not recommended by all members, but by some. Inflation has, of course, several meanings. To many people it means pouring out large quantities of new money into the economic system, with the intention that commodity prices will rise, and with the hope that they will not go too high.

But if one thinks of it merely as a matter of raising the prices of commodities, lowering interest rates on money and increasing loans to business, there are many ways in which these aims can be achieved without resorting to the printing press. To make money freer it is not necessary that its quantity be greatly increased. Is that not so?

Mr. TOWERS: That is so, on the basis that more active use of the money in existence makes it possible to finance a greatly increased production, as we have seen on various occasions in the past.

Mr. ROSS: That is so. It has been said that the efforts of the Bank of Canada, the government and the chartered banks in recent years have all been to increase business activity by lower interest rates, to make borrowing more profitable and to make the hoarding of savings less attractive.

Mr. TOWERS: Yes.

Mr. ROSS: It has been advocated, or rather contemplated, that we do something more drastic than this, although to my mind it is not quite clear how this inflation is to be achieved. There is no indication of definite adherence to the printing press policy, but neither is it clearly supported that the issue of government bonds or progressive income taxation will achieve this result.

Both these latter are important instruments of government policy; an issue of new bonds to finance construction works or high rates of taxation on large incomes, may support an inflation since either will tend to put idle money in the hands of those who may be expected to spend it. That is right, is it?

Mr. TOWERS: I do not think that what you outline there is necessarily of an inflationary character.

Mr. ROSS: I wish to support—

Mr. TOWERS: I do not think an issue of bonds unaccompanied by bank expansion—in other words, a case where the bonds are bought by the people—nor high rates of taxation on large incomes are inflationary.

Mr. ROSS: There are limits to this sort of thing. Either policy, if carried too far, will eat into the country's capital and mortgage the future, either by high taxation or a reduction in capital resources. Is that not so?

Mr. TOWERS: I find it rather difficult to follow that. If the character of taxation is such that the economy is dislocated for one reason or another, then it is true that you risk a falling off in production. I think that statement could be applied to taxation of any character.

Mr. ROSS: Then we all know the disadvantages of excessive inflation, regardless of type, are of course obvious. It is difficulut to stop, its temporary benefits are irregular and its ultimate ill-effects inevitable. Is that not so?

Mr. TOWERS: You are speaking now of inflation?

Mr. ROSS: Yes.

Mr. TOWERS: Yes.

Mr. ROSS: Some who have spoken in committee appear to be satisfied that inflation is sufficiently justified if it is legally possible. Most of the figures of the amount of "unused credit available" may be correct in the sense that the Bank of Canada and the chartered banks have larger reserves than the law requires; although one may question the assertion that all savings accounts are available for purchasing government bonds. That is so?

Mr. TOWERS: They are theoretically available, of course.

Mr. ROSS: Not practical?

Mr. TOWERS: It is unwise to expect that the great majority of the holders would want to make any such purchases.

Mr. ROSS: Gold reserves are very high now, are they?

Mr. TOWERS: Bank of Canada gold reserves?

Mr. ROSS: Yes.

Mr. TOWER:: I would regard them as being at a reasonable figure.

Mr. ROSS: Far above the 25 per cent minimum requirement?

Mr. TOWERS: Yes. I think, of course, as has been pointed out, that 25 per cent minimum was never to be necessarily the amount which would be held.

Mr. ROSS: While the banks usually keep about a 10 per cent reserve against deposits instead of the 5 per cent required by law. Is that so?

Mr. TOWERS: That has been their practice for many years before the law ever came into effect.

Mr. ROSS: But to say that the law permits increased credit is not to prove that it is desirable or even, at present, easy or possible.

Mr. TOWERS: There are two questions there, one would be the possibility or desirability of expansion in a way which brought the reserves down to 5 per cent. I certainly do not think that would be desirable nor do I think the chartered banks would regard it as desirable. The 5 per cent minimum reserve is just what the name implies, a minimum.

Mr. ROSS: A very large increase in credit would constitute dangerous inflation whether permitted by existing law or not.

Mr. TOWERS: Yes.

[Mr. Graham Ford Towers.]

Mr. Ross: Nor does the enactment of a 5 per cent minimum reserve against bank deposits reduce the risks the banks would run were they to reduce their cash reserves below the 9 per cent or 10 per cent which experience has taught is necessary to maintain solvency. Is not that right?

Mr. Towers: I think that is a desirable figure for reserves.

Mr. Ross: That is, from experience there is a danger there?

Mr. Towers: Yes.

Mr. Ross: We can say no more than this, that experience is the teacher there.

Mr. Towers: Yes.

Mr. Ross: Again, some seem to feel that the failure of credit to expand up to the legal possibilities is due to the failure of the government to control the banking system. Is that not so?

The Chairman: I would let the record speak for itself.

Mr. Ross: Yes; all right.

By Mr. Ross:

Q. In that regard I should like to ask if money is available to small borrowers under our present system in the same way as it is in England, for instance, with respect to the Westminster Bank which does a very large business in loans to small people, as I understand it?—A. I should think that it is in Canada, yes.

Q. You think it is?—A. Yes.

Q. Do you not think it might be a good idea if the banks of this country were to form some kind of a central bank for the purpose of going into that small loans business on a reasonable basis? On account of the cost of doing business being so high, if they were to pool their resources, might not something like that be accomplished with great benefit?—A. I am inclined to think that the organizations are large enough now to be able to do that, each one on their own hook. One of them, as you know, has gone in rather extensively for specialized activity along these lines.

Q. One hears complaints from time to time that money is not available to small borrowers?—A. I know that. I think it is most desirable that wherever possible such complaints should be investigated. I think it is most desirable for the banks themselves to have prominently in mind the need for as widespread a loaning business and as generous a granting of credit as it is possible for them to undertake within the limits of safety. I think that should be their constant preoccupation. If it is the case, due to fears on the part of individual managers, that some people have been unable to get loans, shall we say, small loans to which a reasonable appraisal of their situation would indicate that they were entitled, if there have been such cases it is regrettable and the banks should constantly endeavour to cut those down to a minimum.

Q. I appreciate that, but the point I am getting at is this: Is not the small loaning business of an entirely different character from a large loaning business, just as mortgage loaning is an entirely different business from banking? It seems to me that when you look over the figures of the cost of doing business of those small loaning companies which we had before us, we might have some bank which would go into this business to a greater extent than just the one bank which we have at the present time.—A. Yes.

Q. I am not questioning the policy of the banks in loaning their money because I appreciate the fact that there are various factors which enter into it and it seems to me there are bound to be dissatisfactions from time to time. We cannot help that. But I just throw out that suggestion.—A. I understand the point. Although, of course, we have referred to one bank as making a

specialty of that business, I think the other banks do contend that, while they may not have set up separate departments, they go in for approximately the same type of business. However, leaving that aside for the moment, as I understand your point, it was that this business does require some special method of approach, some special training and that a considerable volume is required in order to make it possible to do it on a reasonable basis. That was your thought in suggesting that the thing might be combined?

Q. Yes.—A. I am rather inclined to think that the branch organizations, the whole structure of most of our banks, is sufficiently large so that they could on their own hook develop a reasonably economical volume of that type of business.

The CHAIRMAN: Mr. Ross, may I suggest that you do not revive the old controversy which we have had for four years as to personal loans.

Mr. ROSS: I did not intend to revive that. I was thinking more of the Prime Minister's statement on the eve of the last election that he would issue money and credit in terms of public need. I do not think the Bank of Canada can really do that.

Then we were talking about the expansion of the $1 Bank of Canada bills into $20, and so on. Britain's case has been cited as an example of a different policy, but again, to my mind, the reasoning is not clear.

While inveighing against Canada for depending on high taxes and borrowing to finance its recovery efforts, Britain is praised for maintaining a scheme of high and widespread taxation on income and she is commended for forcing the banks to absorb her securities by expanding bank credits.

With respect to this latter, the argument, to my mind, is particularly inconsistent. In the case of Britain it is said that the purchase of government securities by the banks means the government always has at its disposal a plentiful supply of money on its own terms, it can keep the medium of exchange circulating, raise the standard of living, increase the volume of trade, and so on.

On the other hand, in the case of Canada, the same thing is regarded as deplorable. Here, the purchase of government securities by the banks means that the latter " by expanding $1 Bank of Canada bills into $20 of bank credit money, exchange that type of money for interest-bearing government bonds," and they create their own buying power with a book-keeping system which they use to buy interest-bearing government bonds; and therefore, it is one of the most dangerous concessions ever issued by a democratic government to private capital.

I should like to know why we praise the system in one country and deplore it in another country?

Mr. TOWERS: If there was praise for the one and a deploring of the other, I would not understand it because, as a matter of fact, the systems operate in the same way.

By Mr. Ross:

Q. Both banking systems are practically the same?—A. Yes.

Q. The principle is there?—A. Except, because of a different situation in England, the holding of government securities by the banks in the United Kingdom represents a much smaller proportion of their total assets.

Q. I think we might easily question the suggestion that England has lifted herself out of the depression ahead of Canada by subjecting the bankers to ruthless control. Is that not so?—A. Would you repeat that?

Q. England has lifted herself out of the depression ahead of Canada by subjecting the bankers to ruthless control?—A. No.

Q. When we know that the real reasons for the recovery have probably been a boom in construction and heavy expenditures on armaments. That

[Mr. Graham Ford Towers.]

has had a lot to do with it, has it not?—A. Construction activities undoubtedly had a great deal to do with the earlier stages of England's recovery.

Q. And now armaments are having a very large effect on it?—A. Yes.

Q. The former has begun to wane, and we know that British economists are seriously worried about the outcome of the latter; expenditures of this type do not produce a healthy revival. Is that so?—A. That is so.

Q. Returning to Canada, it is suggested that as a result of the extremely advantageous position indicated above and apparently created in 1934, the Canadian banks have eagerly sought government securities, and it is stated that bank portfolios of government issues have increased by, roughly, $478,-000,000 since 1934. I think that is right.—A. Approximately that, yes.

Q. Is not the explanation of this increase as we have it there absurd?—A. The explanation?

Q. The explanation that I gave; that the Canadian banks have eagerly sought government securities?—A. They have, yes.

Q. They have eagerly sought government securities?—A. Yes.

Q. The fact has been overlooked that in the same period, despite the central bank's easy-money policy, the average loans in Canada of the chartered banks declined by $111,000,000; to this extent the purchase of securities by the banks had merely been a replacement of one form of earning asset by another.—A. To the extent that there was a decline in loans, as you say, holding of government securities instead is a form of replacement. But the purchase of government securities was considerably in excess of any decline in loans.

Q. What would account for that?—A. The addition to the chartered banks' cash reserves arising from Bank of Canada action.

Q. Is it not so that the demand for loans from banks has decreased?—A. Yes.

Q. Apart from the decline in opportunities to make loans to business, the tendency to increase holdings of government issues is merely a continuation of a trend that set in over twenty years ago due to the change in Canada's economy from a rapidly expanding one to a more or less static condition.—A. I would not say as long as twenty years ago, because the security holdings of the banks right through to 1929 were relatively moderate in proportion to their total assets.

Q. That period may be slightly too long.—A. Since the depression, shall we say?

Q. What I am thinking of is the expansion of the country with respect to railway development and one thing and another of that kind, which was very large, and as a consequence of that the expansion. No one regrets this development more than the bankers. Anyone must know this; for not only is it not in the interests of either the governments or the banks that they should become so completely dependent on each other, but the return from such investment is much below that from commercial loans.—A. Completely dependent, I think, is a strong term, because the banks, even although their holdings of dominion-provincial securities are substantial, only hold about 16 per cent of the total debt.

Q. So far as the claim that the banks can convert $1 Bank of Canada bills into $20 credit money to buy government securities is concerned, might I point out that this assumes that the banks maintain only a 5 per cent reserve instead of the 10 per cent reserve they actually find necessary, by experience.

Mr. Tucker: They actually find what?

Mr. Ross: They actually find necessary by experience.

Mr. Tucker: It has been found necessary in the past.

Mr. Ross: It has been found necessary for a period of years. I think Mr. Towers agrees with that.

By Mr. Tucker:

Q. But the governor would not say it is necessary under the present set-up.—A. Yes, I think it is. I would not like to see them hold less.

Q. That is your personal feeling, but it is not necessary, though.—A. I think it is, yes. If they are not going to come into too great a dependence on the central institution, then they should hold a fair amount of cash throughout the year.

By Mr. Ross:

Q. I follow that up with this: The interest is made doubly so by the importance of maintaining at all times, confidence in the medium of exchange.

Mr. TUCKER: That is not the reason.

The CHAIRMAN: Mr. Tucker, before you came in Mr. Ross expressed the desire to proceed uninterruptedly, and only with his permission should I like to see interruptions.

By Mr. Ross:

Q. Secondly, the Bank of Canada cash and deposits held by the banks were not created in 1934 by the legalization of the 5 per cent reserve requirement, but were largely composed of dominion notes already held by the banks and their gold which was taken over by the Bank of Canada?—A. Yes.

Q. That is a true statement, is it not?—A. Yes.

Q. Their present holdings of legal tender are merely what was formerly their own property converted into another form?—A. Plus the additions which have taken place in their cash reserves since 1935, and in including 1935, as a result of Bank of Canada action.

Q. It was used by the banks as a cash reserve against deposit liabilities before 1934 in the form of gold and dominion notes, just as it is used now in the form of Bank of Canada notes and deposits. Is that right?—A. Yes.

Q. It seems to me that much of the trouble as enunciated appears to proceed from the facts, first that they consider a managed currency as necessarily an inflated one, and, secondly, that they fail to recognize that Canada's monetary system is just as much managed as any system can be under current business conditions and with so young a central bank. Is that so?—A. Well, I think perhaps that can be stated in this form; that we have a managed currency and therefore there is a responsibility for dealing with monetary problems by means of decisions which are not automatic, as they may be when a gold standard is in operation.

Q. Is not the idea ridiculous; in fact, the inducing of an inflation is probably the most difficult piece of management that monetary authorities can attempt?—A. Not if you go at it strongly enough.

Q. You can induce inflation.—A. Yes.

Q. But it is a pretty difficult thing to do?—A. If you proclaim your intention and go at it strongly enough, you can undoubtedly inspire a feeling of fright which will result in flight from currency.

Q. That is really what inflation is?—A. Of an extreme character, yes.

Q. We have inflation to-day, of course?—A. No.

Q. I will ask you that again. Certainly, there is little that the chartered banks can contribute on their own initiative to such an effort as inflation?—A. No, the actions of the people who own the money, namely, the depositors, is the major factor there.

Q. It is beyond their power, in other words?—A. Initial action by banks based on a central bank policy will increase the amount of the deposits, but whether or not that produces inflation will depend on the subsequent action of the depositors.

[Mr. Graham Ford Towers.]

Q. It does not follow that, because a sum of money is available in the hands of the banking system for the making of loans, the whole of this sum will be actually borrowed. The use of the money involves the existence of persons ready to borrow who are sufficiently credit-worthy for the banks to be able to lend to them?—A. Yes.

By Mr. Tucker:

Q. Is that true, Mr. Towers?—A. I think Mr. Ross was speaking only of the loaning end of it.

Q. He said that the only way that the banks can contribute to an inflationary policy is to try to find a sufficient number of borrowers.—A. I did not understand that.

Mr. Ross: No, I said "It does not follow." Mr. Towers explained something about inflation, but I said "it does not follow that because a sum of money is available in the hands of the banking system for the making of loans, the whole of this sum will be actually borrowed. The use of the money—"

Mr. Tucker: And Mr. Towers agreed to that, and I said it was not correct.

Mr. Ross: But I went on to say, "The use of the money involves the existence of persons ready to borrow who are sufficiently credit-worthy for the banks to be able to lend to them."

Mr. Towers: I think Mr. Ross was just at that moment on the loan end of it.

Mr. Tucker: I thought he was saying—

Mr. Towers: It would make a more complete statement if one said that in these circumstances a constant effort to increase loans, or failing that an increased purchase of securities, would have the result of expanding the total volume of money.

Mr. Tucker: And cause inflation if it went far enough?

Mr. Towers: Right.

By Mr. Ross:

Q. Money is not the source of purchasing power?—A. I think that is a fair statement; in other words, money is the medium of exchange.

Q. Yes. In other words, you may say " The use of money has not in any way whatsoever changed these two basic facts. First that the production of exchangeable goods is the only way in which purchasing power can be continuously created and second, that it is the value of the goods so produced in relation to the value of the goods the producer desires to obtain that determines the extent of his purchasing power." That is the only way he can make money out of it?—A. Yes.

Q. Now, certainly in times of depression it may be very difficult to find enough such persons, who are credit-worthy, to absorb all the money which is available for lending, or in times such as these, the scarcity of opportunities in profitable enterprise reduces the demand for this. Therefore, under such circumstances the banks are reluctant to see their money idle, and will probably buy securities of the government—A. Yes.

Q. —and the government will endeavour, by its expenditures, to take the place of the decline in spending. But this is outside of the responsibility of the banks?—A. Yes.

Q. The suggestion that the private banks are beyond the control of the central bank is just as incorrect, to my mind, is it not? The two best known instruments of central banking policy are the rate at which the central bank

will rediscount commercial paper for the banks and operations on the security market. These are the two things?—A. The latter being the most important, in existing conditions.

Q. The purpose of both these instruments is to try, by altering the cash reserves of the banks, to influence their lending policies. I pointed out before that the banks have found it advisable to keep their cash reserves at 10 per cent of their deposit liabilities. If at any time this percentage declines, the banks will probably endeavour to increase their cash ratio by disposing of some securities or other readily realizable assets. But if the condition persists, they may find it necessary to reduce their loans. If the percentage rises, the banks, in order that their resources may be fully employed, will purchase more securities and then if possible, increase their loans. That is so, is it not? Thus, it can be seen that if the central bank can control the chartered banks' cash reserves, it can ultimately influence the amount of credit they will feel free to lend.—A. That is true.

Q. Since each chartered bank must maintain its cash reserves in legal tender or deposits with the central bank, the central bank can influence those reserves by increasing or decreasing the amount of legal tender outstanding or by altering the volume of deposits that the chartered banks have with it.—A. I would go beyond that and say that under existing conditions when we are not on the gold standard, the central bank does not simply influence the amount of cash reserves, it determines them.

Q. It determines them?—A. Yes.

Q. The way in which its rediscount rate will affect these deposits is fairly obvious; if the rate is low, the banks will be able to rediscount more paper and thus increase their balances with the central bank. The open market operations of the central bank have their effect in a more roundabout way, and work more slowly. Is that right?—A. No; the open market operations, I would say, are more direct and positive, because rediscount or borrowing depends upon the volition of the various banks concerned.

Q. Depends on what?—A. On their willingness to do so; whereas by open market operations the amount of the chartered banks cash reserves is changed without their having to play any part in the transaction.

Q. If the central bank wishes to reduce the cash reserves of the chartered banks and force a contraction of loans, it will sell securities?—A. Yes, or some other asset.

Q. The purchasers will give it cheques on the chartered banks which it will set off against their balances with it. If the central bank wishes to increase the cash reserves of the banks and make a loan expansion possible, it will purchase securities and give its cheques in exchange; these will be deposited in the chartered banks which will in turn deposit them in their accounts in the central bank.—A. Yes.

Q. It is doubtful if the rediscount rate will be an important factor in Canada, at least for some time?—A. So long as the easy money situation continues, it is not likely to be of particular importance.

Q. Then we go on. There is no reason why open market security dealings should not be just as efficacious as elsewhere. You said it was more important than the other feature?—A. Yes.

Q. These weapons, however, are much more useful in stopping an inflation than in starting one. Is that not so?—A. That is true.

Q. The present difficulty is that while there are admittedly large supplies of credit available suitable private borrowers are missing, and also suitable opportunities in enterprise are lacking to stimulate this borrowing. It is possible that recovery from depression is not a question of financial manipulation?—A. I should think it is more than possible; it is probable.

[Mr. Graham Ford Towers.]

Q. It is probable?—A. Yes.

Q. It might be to a very small extent?—A. Suitable financial facilities will ensure that recovery.

Q. Now, to summarize some of these just before I go on to something else, may I say first, the advantages of inflation depend on its extent; they are quickly lost if the inflation becomes too large and rapid. A "printing press" inflation is always dangerous. Is that not correct?—A. Yes.

Q. Secondly, the fact that the law permits a large inflation does not prove that it is desirable?—A. No; I do not presume that the law intended to say that it was.

Q. Thirdly, the control of the monetary system rests in the last analysis with the Bank of Canada. That is so? It is not the function of the chartered banks to determine the volume of credit to be available in the community.—A. No, although in their own actions they must of course be guided by their conception of prudence.

Q. And they are forced to do so to a certain extent, under your control?—A. You mean, speaking now of prudence?

Q. No, prudence is one thing, but are they not forced, as a matter of fact?—A. They would be forced to curtail, but they cannot be forced to expand if they thought the expansion would be dangerous for them.

Q. They would have to put their money to work?—A. If they thought that the means of employment were too dangerous, they could leave it idle. Up to date that has not been the case.

Q. Is it true it is not the function of the chartered banks to determine the volume of credit to be available in the community; they neither wish nor try to do so? They function more as analysts, scrutinizing applications for loans to see that their basis is a sound one, granting those that have the best chance of a successful issue.—A. And also determining their investment policy.

Q. They function as well as a repository for the money of the people. They perform a very definite service to the people of Canada. They function as a medium to put money in circulation. Is that not so?—A. You are speaking now of the active circulation in the hands of the people?

Q. Yes.—A. Yes; they are the source from which the people receive their requirements for pocket money.

Q. The cost of doing that has been around 3 per cent of their total assets?—A. My guess was that it must be somewhere in that neighbourhood.

Q. About 3 per cent of their total assets. The rate of interest which they charge is governed to a great extent by the control exercised by the central bank?—A. I do not know that I would say that; I would says the actions of the central bank have a considerable influence in respect to rates on securities, and when these rates are relatively low, decidedly low, there is a pressure on the banks to lower the rate on commercial loans, keeping it in some kind of proportion with changes which take place in other rates. But the central bank has not got any absolute determination of what the rate shall be.

Q. They can have a pretty strong influence, though, on the rates?—A. Quite a strong influence, yes.

Q. What I am getting at is this: the risk involved in the loans, for instance, determines to a certain extent the rate of interest which is charged?—A. It has a bearing.

Q. There are a great many factors, of course, in it?—A. The cost of operations and the necessity of survival also have a bearing.

Q. What we might call the average level of interest rates is controlled by the Bank of Canada?—A. Strongly influenced by it, yes.

Q. Now, I want to ask you this. Has there been always the co-operation which you desire as governor of the bank between the private banks of Canada and the central bank, or have you got full co-operation now?—A. Yes, I would

say that we had. I would say that our number of years of operation and the character of the problems which have come up during that time, have not necessitated extremely close contacts with the banking organizations. I think that as time goes on these contacts may become closer. That, perhaps, is rather a vague statement, but I think it is just about the best I can do at the moment.

Q. I was going to suggest that the origination of the bank caused a certain amount of resentment at the formation of the central bank, but once the bank was under way and the advantages which were to accrue from the central bank to the general community and to the chartered banks as a whole was realized, that co-operation between the chartered banks and the central bank is becoming closer?—A. Yes, that is undoubtedly true. All that I was pointing out was that there was no lack of desire to co-operate, but partly because of the situation during the last few years and partly because of our comparative youth, the full possible measure of co-operation has probably not yet been determined.

Q. I would say, to my mind there does not appear to be any justification for the suggestion that there is any less co-operation between the Bank of Canada and the federal Department of Finance than there is between other central banks and their governments.—A. That is certainly the case.

Q. In other words, the Canadian government is at least as responsible for the control of the volume of credit as are the governments of those countries whose managed currencies have so aroused the admiration of so many people. That is so, is it not?

Mr. Tucker: What was that statement? I presume you want us to hear what is going on, Mr. Ross.

Mr. Ross: Could you not hear me?

The Chairman: He could not hear the last statement.

Mr. Ross: My last statement was: to my mind, there does not appear to be any justification for the suggestion that there is any less co-operation between the Bank of Canada and the federal Department of Finance than there is between other central banks and their governments. In other words, the Canadian government is at least as responsible for the control of the volume of credit as are the governments of those countries whose managed currencies have so aroused the admiration of so many people of our country.

Mr. Tucker: I do not know what you mean by "responsible for it".

By Mr. Ross:

Q. There are a few more questions I should like to ask you. It was stated in the committee here that 73 per cent of the deposits of this country are held by 8 per cent of the people of the country. The statement is found on page 243. That to my mind gives an entirely erroneous impression as to the situation. I have obtained some figures from the department of insurance. I can talk about this because I know something about it. We have in Canada roughly 6,471,000 policies in insurance companies. Let us say we have roughly 6,000,000 policy holders. They have cash in the banks to the amount of $25,571,823. These are all depositors. Their average deposit, you see, will be under $1,000. There are millions of dollars as well in fire, casualty and all other lines of insurance, and that money is deposited in the banks, which on the 31st December amounted to over $17,000,000. It is true these depositors all had less than $1,000 in the banks, but I am trying to show that the suggestion that the 8 per cent were all big shots and controlled the deposits is untrue.

Mr. Kinley: That 8 per cent includes all the people of the country, men, women and children.

Mr. Ross: It is whatever it is.

[Mr. Graham Ford Towers.]

Mr. KINLEY: What per cent of the people in the country are wage earners? That would be a fair way to put it.

Mr. ROSS: I do not know.

The CHAIRMAN: There are about 3,000,000 wage earners.

Mr. ROSS: I will tell you this. There are some 4,000,000 industrial policies held and they average $233 each, roughly. These are all held by wage earners.

Mr. KINLEY: Not all.

Mr. ROSS: Industrial policies.

Mr. KINLEY: The 8 per cent would look much better if it took into account the wage earners in the country, wage and salary earners, not all the children.

Mr. ROSS: I am trying to point out this gives a wrong impression.

Mr. KINLEY: So am I.

Mr. ROSS: This 8 per cent is wrong.

Mr. TUCKER: What are you dealing with?

Mr. ROSS: The statement was made here that 8 per cent of the people control——

Mr. TOWERS: I think it was 8 per cent of the number of depositors.

Mr. ROSS: Eight per cent of the depositors?

Mr. KINLEY: The people of Canada who have deposits.

Mr. ROSS: Eight per cent of the depositors had 73 per cent of the deposits in the banks. I say the 8 per cent have not got 73 per cent of the deposits. That is entirely wrong, because you have all this cash that I have told you about which is owned by the policy holders in these various companies. That is the only one I know about. If you were to break down in the classification of those with over $1,000 deposits to such as shareholders in other institutions and so on, I do not think that impression would be gained.

Mr. TAYLOR: Do you imply that is held on deposit?

Mr. ROSS: Which?

Mr. TAYLOR: The insurance fund.

Mr. ROSS: I have a record here which I got from the department.

The CHAIRMAN: Mr. Ross put on the record the amount held in deposits.

Mr. TUCKER: Are you arguing there is a fair and equitable distribution of wealth in Canada today?

Mr. ROSS: No, I am not.

Mr. TUCKER: I do not see the point.

Mr. ROSS: I want to point out that is not a correct statement because it gives the wrong impression. I wish to show you something else in a minute. These deposits belong to these policy holders. I want to correct that impression. When we are talking about inflation and the danger of inflation we must remember—

Mr. KINLEY: I want to help you.

Mr. ROSS: Am I not clear?

Mr. KINLEY: The point is you say this creates a wrong impression. I think it does too. Your statement is that 73 per cent of the bank deposits is controlled by 8 per cent of the depositors.

Mr. ROSS: Eight per cent of the depositors.

Mr. KINLEY: Do you mean by bank deposits, money put into the bank as savings?

Mr. ROSS: Both, time and savings.

Mr. Towers: Time and demand, as I recall, were used in the figures.

Mr. Kinley: Time and demand money, not borrowings.

Mr. Ross: My actual point, Mr. Kinley, was this: this report of the classification of loans and deposits would include all deposits which were over $1,000. All deposits over $1,000 in the banks were bulked together and then it was said that 8 per cent of the depositors controlled 73 per cent of the deposits.

Mr. Kinley: How are you classing the deposits there?

Mr. Towers: Number of accounts.

Mr. Kinley: You call it loans and deposits. When a man makes a loan he creates a deposit. You do not mean that.

Mr. Jaques: Every deposit is derived from a loan. Every dollar of these savings has somewhere corresponding with it a debt.

Mr. Kinley: If I go to the bank to get a loan of $1,000, it creates a deposit; that is not wealth.

Mr. Towers: You will find that these deposits which are shown at any given moment on the banks' balance sheets belong to the people, that the vast bulk of them belong to the people who have no obligation to the banks, they are in their own ownership.

Mr. Jaques: But they are balanced, since all deposits are derived from loans.

Mr. Towers: No.

Mr. Jaques: In the first place.

Mr. Towers: No.

Mr. Jaques: 99 per cent of the money which we have is derived from bank loans.

Mr. Towers: Or investments.

Mr. Jaques: The money which is saved to invest is derived from bank loans.

Mr. Towers: Bank loans or investments, loans and investments.

Mr. Kinley: What we are trying to show is that of all the money in the banks owned by the people, 8 per cent of the people have 73 per cent of it.

Mr. Towers: Eight per cent of the number of depositors.

Mr. Kinley: Have 73 per cent of it. If that is going to indicate anything or have anything to do with the distribution of wealth it must be through savings deposits or through day-to-day deposits in the banks, not what is created by paper for credit. These are not deposits that have any value with regard to the distribution of wealth.

Mr. Jaques: Money is not wealth; it is a claim on wealth. These claims are not exercised.

Mr. Ross: Anyway, I have tried to make myself clear. With regard to this 8 per cent that we have been talking about, may I say that there are 6,500,000 people who are included in the 8 per cent, that is all.

Mr. Tucker: You suggest 65 per cent or 60 per cent of the people of Canada have insurance at one time or another, including men, women and children?

Mr. Ross: There are 6,500,000 policies in force. I may say that we have possibly 6,000,000 people insured. Even if you cut it down to 3,000,000—

Mr. Tucker: You say 6,000,000 out of 10,000,000, including men, women and children? Half the population, pretty well, must be insured.

Mr. Ross: What I was trying to point out was this. I have forgotten exactly the figures but you have 4,000,000 policies in issue for $233. That is the average.

The Chairman: Many children are insured.

[Mr. Graham Ford Towers.]

Mr. Ross: There are a lot of children insured in other ways; but that is a very large distribution. I say they are all depositors. I just point out if we were to break down the shareholders and so on, there would be a great difference in the percentage.

Mr. Tucker: Where does this 4,000,000 figure come in? Where is the proof that there are 4,000,000 people insured in Canada? I do not agree with that. I am unsatisfied there are 4,000,000 people insured in Canada. I should like to know where that figure comes from.

Mr. Ross: Well, you can only guess at the number of people insured, but what we do know is that you have 4,000,000 industrial policies in force, averaging $233. That is the average amount that the workman has.

Mr. Tucker: Mr. Ross, where did you get the figure? You say as a matter of fact there are 4,000,000 policies.

Mr. Ross: I say there are more than 4,000,000 policies.

The Chairman: From the department of insurance.

Mr. Ross: You can get it from the blue book.

Mr. Tucker: Are you satisfied there is no duplication there? There may be more than one policy to one person.

The Chairman: These are industrial policies that Mr. Ross is talking about.

Mr. Macdonald: You say there are 4,000,000 industrial policies?

Mr. Ross: Yes.

Mr. Tucker: And no duplication?

Mr. Ross: Mr. Tucker, I did not say there was no duplication. I say you have to make a guess at the number of people, you cannot tell. We do not know the figures, but I say insurance is widely distributed.

Mr. Macdonald: There is hardly likely to be any duplication, or much duplication in industrial policies.

Mr. Ross: No, there would not. You might say there were 3,000,000 policy holders, and probably a good many more than that.

Mr. Kinley: Industrial insurance is growing very fast.

Mr. Ross: The reason I brought that out is this: we have roughly 6,500,000 policies issued, and the amount of those policies in Canada is $7,700,000,000. That is the total amount. I am only using this as an illustration to show that if we did have inflation in this country, which has been advocated, would it not have a very serious effect on that $7,700,000,000 of savings of the people which they have saved to provide for their old age and so on? If we have inflation would not that be one of our great dangers?

Mr. Towers: Yes, there is no question of that; although I must say, so far as I am aware from the record, no one has advocated inflation. I think there have been suggestions in regard to the possibility of increasing the supply of money, but always with the proviso that it sholld not produce inflation.

Mr. Ross: If we have a real revival of industry in Canada we would have inflation, would not we?

Mr. Towers: Not necessarily, no.

Mr. Ross: You could control it?

Mr. Towers: I think so.

Mr. Jaques: Mr. Towers, if this depression endures, would you say that the savings of the people are quite safe?

Mr. Kinley: They always have been.

Mr. Jaques: I do not think they have. I should say the vast majority of the people's savings were lost in the last ten years.

Mr. TOWERS: How would that loss take place?

Mr. DEACHMAN: Not through the banks.

Mr. JAQUES: Indirectly, most certainly. I should like to ask the percentage of insurance policies which lapsed. I know in some companies—it might not be fair to mention names—one of the biggest companies, I think the figure which was checked by an insurance actuary in Great Britain was that over 90 per cent of their policies lapsed.

Mr. KINLEY: That is a lot.

Mr. ROSS: That is not the lapse ratio in Canada.

Mr. JAQUES: I do not know; it was very very big. The figures for Australia are over 90 per cent.

Mr. ROSS: I do not think you have any figures like that in Canada.

The CHAIRMAN: Let Mr. Ross continue with his statement.

By Mr. Ross:

Q. Is gold a merchantable commodity, Mr. Towers?—A. Yes.

Q. Is it not an international money?—A. In effect, yes.

Q. Our currency is backed by gold?—A. Our currency? That is, Canadian currency?

Q. Yes.—A. To the extent of something over 50 per cent of the total note and deposit liabilities of the Bank of Canada.

Q. We are on a gold standard?

The CHAIRMAN: No.

Mr. TOWERS: No.

By Mr. Ross:

Q. It is not quite that. All right. When you say that gold is a merchantable commodity what value has gold as a merchantable commodity in the manufacture of articles?—A. I do not think I quite understand that question.

The CHAIRMAN: For commercial purposes.

Mr. ROSS: For commercial purposes.

Mr. KINLEY: You can buy a wedding ring for $5.

Mr. ROSS: It takes the money value; it does not take the useful value.

Mr. KINLEY: Oh, no, no.

By Mr. Ross:

Q. Is it not rather a commodity with a very highly inflated value?—A. I think that is a very difficult question to answer. In fact, it is a commodity which is being bought at $35 an ounce by a great nation.

Q. When it has lost its usefulness to a great extent for commercial purposes, why should it have an increased value?—A. The value is determined by the monetary action of nations who purchase it at a fixed price.

Q. I cannot get it through my head that it is a merchantable commodity.—A. It is merchantable in the sense that it can be sold at the present time in any quantity at that figure.

By Mr. Jaques:

Q. Is that not the figure set by President Roosevelt?—A. The congress of the United States.

By Mr. Ross:

Q. Does not any merchantable commodity have a value on account of its utility?—A. Its utility for monetary purposes is assessed at $35 an ounce by the United States, for example.

[Mr. Graham Ford Towers.]

By Mr. Tucker:

Q. I was wondering, Mr. Towers, if you would care to express an opinion on this matter. Supposing the United States at the present time were to stop buying gold at any price, do you think it would have a very bad effect on the price?—A. My mind does not grasp the possibilities there, Mr. Tucker; that is all I can say.

Q. One of these days that very thing may happen, and it is a situation we may have to face. The United States may say, "We have plenty of gold; we won't buy any more."—A. Mr. Morgenthau's letter not long ago, I think, outlined that situation very well.

Q. I am not familiar with that letter.—A. That is one which we mentioned before. One of the United States senators raised certain questions along those lines, to which Mr. Morgenthau replied very categorically at some length. The situation really could not be set out better than he set it out in that letter. I will find out just where it was published and mention it later on.

Q. Is it in our record?—A. No, it is not.

Mr. KINLEY: Gold is still international currency.

Mr. ROSS: I just asked Mr. Towers that question.

By Mr. Kinley:

Q. But it is still an international currency?—A. In effect, yes.

Q. We can pay our debts with it abroad even if the United States does not buy it.—A. You must assume that certain people will take it.

Q. Do they not have to take it?—A. No.

Mr. ROSS: I cannot get it through my head why gold is a merchantable commodity. I do not think it is.

Mr. JAQUES: It is in a class by itself.

Mr. ROSS: Yes, I think it is. I do not wish to bore you with reading all this material from the report of the National Employment Commission, but it outlines certain things which I should like to bring to your attention.

By Mr. Kinley:

Q. In the good old days when you had gold in your pocket and could spend it, what was it worth per ounce, about \$16, was it not?—A. No, \$20.67 an ounce.

Q. In the days when they coined it?—A. Yes. I have forgotten how long it had that value.

By Mr. Tucker:

Q. That was a value put on by statute?—A. Oh, yes.

Some Hon. MEMBER: How long ago was that?—A. I have forgotten whether that was the value in 1790.

By Mr. Taylor:

Q. 1840, was it not?—A. Before that, I think. However, I am a little vague on that.

By Mr. Ross:

Q. In the National Employment Commission report at page 25, it states:

> It is to be hoped that the establishment of the Bank of Canada will make available for the future ability, experience, and technical devices for a prudent control of credit such as did not in the past exist. That control can accomplish much toward the lessening of fluctuations in business and employment, to the degree that the Bank can give wise and independent leadership to business and governments, and to the degree that such leadership is understood and accepted.

How can the bank do all that, or will the bank do all that?—A. Oh, I think that is a question which should be asked of some independent observer who is not connected with the bank.

Mr. DEACHMAN: Modesty!

Mr. ROSS: I was interested to know how the bank was going to do this job because the employment commission tells us it is going to do it.

Mr. TUCKER: Was that in the final report?

Mr. ROSS: Yes. I am not going to read the whole of this report, you can read it yourselves if you desire to do so. However on the same page there is another very interesting passage:

> The broad analysis which has been sketched is sufficient to indicate the proper direction of policy—its strategy rather than its tactics. The latter must be devised in the light of particular situations. The analysis points to (*a*) the importance of prudence and courage on the part of governments in curbing expenditures and reducing debts in periods of rising revenues.

Now, can it be said that we did do that in the past?—A. Speaking of governments, as a whole, throughout the country, I do not know that it can be said.

Q. I do not think so myself. We have not done it in years gone by. Then we are faced with the situation that we have not got our nest egg, which we should have for the rainy day (that is to-day) and that is one of our difficulties. Is there any monetary—

The CHAIRMAN: Our umbrella for the rainy day.

By Mr. Ross:

Q. Our umbrella, that is right. Is there any monetary way that such a nest egg can be set up at the present time.—A. I think perhaps those remarks tend to give a wrong conception of the situation. I am not criticizing the remarks themselves, I am just thinking of some interpretations that might be made. I think the idea underlying those remarks was that during a period of great activity, and therefore high government revenues, there is an object in governments reducing the scope of their activities, paying off debts, having in mind that at the time they would be doing so, the people who received that repayment would find active employment for the funds in private capital development, which by definition must be going on on a considerable scale at such times. Therefore, those are times when public debts can usefully be reduced, without there being involved any undue curbing or deflationary influence on the economy. And if opportunity is taken to reduce them at such times, there is likely to be less distortion of the governmental debt situation at some later date, if debts have again to be increased.

Q. Is there any monetary way by which we can do it now?—A. No; this is definitely a time when because of the lack of private demand for capital, governmental action to repay debts would be a bad influence.

Q. The report goes on to emphasize the importance of the great advantage of intelligent and informed control of credit by the Bank of Canada. I think that is right, too. Further down it says:—

> Works undertaken in such programs should be those which have a definite value in promoting the competitive strength of Canadian industry, and in improving the conditions of life in the dominions.

It goes on to say:—

> These works may properly include:
>
> Building of highways to permit the development of mining, tourist and other resources.
>
> Development and preservation of tourist regions;

[Mr. Graham Ford Towers.]

Projects for the improvement and protection of public health and safety (such as provision of municipal pure water supply and sewage disposal projects, elimination of railway and highway grade crossings, etc.);
Slum clearance and low rental housing schemes in urban areas;
Forestry plans for extending and preserving forests;
Reclamation and conservation projects;
Land clearance and settlement projects where the conditions are purely favourable to successful settlement.

I should like to go back to the question of tourist trade and the advantage of the building of roads for the tourist trade and the increasing and development of tourist regions. I do not suppose it is possible to get what the economic advantage to Canada is of this tourist traffic? When we think that it is a three-month job, a very seasonal job, that it employs a great many people for a certain period of the year, but that on the other hand the roads which are built for tourist traffic are non-productive for seven or eight months in the year—

Mr. KINLEY: You would not quite say that, would you?

Mr. ROSS: Just a minute. I am not criticizing the necessity for works of this kind; but I would like to know if we are not absolutely in the dark on the matter. It seems to me that some economic analysis should be made as to what the advantage of the tourist traffic is. Mr. Deachman very aptly pointed out, I thought, that due to the tourist traffic we had increased the consumption of coffee by—I have forgotten the amount—

Mr. DEACHMAN: Twenty million pounds; almost double.

By Mr. Ross:

Q. That is just one thing. If it is the coffee that is consumed, it is not benefiting the people of Canada very much. Would it be possible to get an analysis of tourist traffic?—A. To arrive at an accurate net value would, I think, be extraordinarily difficult, Mr. Ross.

Q. Do you not think is very necessary?

Mr. TUCKER: Do you think that the buying of that coffee did not help Canada? To buy that would we not have to ship out goods which we produced in Canada?

Mr. ROSS: They were using their own coffee.

Mr. TUCKER: Yes, but when we supply them with the coffee we have to ship out goods in order to buy it. When you suggest that the supplying of coffee would not help our people here I think that misconceives the whole effect of foreign trade.

Mr. KINLEY: It was in our possession.

Mr. ROSS: May be that is so. On the other hand, we built the roads but we built them with machines that are not made here.

Mr. TUCKER: We have to buy those machines.

Mr. ROSS: I am not putting up an argument for one or the other, I am simply pointing out a few things and asking for certain information. I do not intend to express an opinion on it. I think all the governments of this country are absolutely in the dark with respect to the advantage of the tourist trade and the building of roads for tourist traffic.

Mr. JAQUES: I agree.

Mr. ROSS: Instead of building these roads I think it would be far better to build roads to take care of byways instead of these six- and seven-lane highways, unless we are going to get some really economic advantage out of it. I think it should be possible to get an analysis of that made.

Mr. Towers: The Dominion Bureau is constantly working to try to improve their estimates in respect to tourist earnings.

By Mr. Ross:

Q. I think it is something we should have. I am just about finished. How are we going to finance these works? What are we going to do about this work that is suggested by the Employment commission to take up the slack, or, as is said, "to promote the competitive strength of Canadian industry"? I will not ask for your opinion, you can answer if you like, as to whether these works would promote the competitive strength of Canadian industry. I suppose they would.—A. I think that is a technical non-monetary question which I would be foolish to try to answer.

Q. How are we going to do these works in times like these?—A. To the extent that works of that kind are engaged upon I assume they would be financed as they have been in the past, by government borrowing.

Q. On page 36 of the report it states:—

> The restrictive and harmful effects which increasing taxation has upon private expenditures in productive industry, and therefore, upon employment, deserves special mention, especially since between one fifth and one quarter of the national income of Canada is already withdrawn by taxation. Unfortunately, the demands made upon governments under depressed economic conditions tend to increase this taxation burden at the very time that stimulation of private expenditures is so vital to the national interests. This serves to emphasize the important contribution which governmental bodies can make to national prosperity by a rigid "control of their expenditures," and so on.

My point is, what are going to do about it? We have these restrictive and harmful effects which increasing taxation has upon private expenditures in productive industry, and is there any way we can do it without taxation?—A. Putting those two things together in the report one would assume that they carried a recommendation that useful works should be undertaken presumably by borrowing rather than taxation, and that so far as other expenditures of any kind were concerned they should be kept as low as possible, and that in any event taxation should be lowered. I am trying to put together two fragments rather hastily and I do not know whether I have put them together properly.

Q. By borrowing we will increase the debt for the future and not the debt for to-day. That is the answer. There is no way it can be done other than by borrowing, taxation or by inflation.—A. That is right.

Q. Those are the three ways in which it has to be done?—A. Yes.

Q. We hear about the law of diminishing returns. The finance minister in the house said the other day that we were not in difficulties; that we were not in difficulties with that law yet because we had funds and the collection of money through taxes had still kept up although taxes were very high. But do you not think that we have come pretty well to the point where our taxes are so high that the law of diminishing returns is working against us in so far as production and consumption are concerned?—A. That, I could not say.

Q. Again, there is only one way of doing this thing, either by borrowing, taxes or inflation, and that is the only way in which monetary control can enter into this situation.

Mr. Jaques: That is the orthodox way.

Mr. Ross: It is the only way.

The Chairman: Shall we adjourn until 4 o'clock this afternoon?

Mr. Tucker: Mr. Chairman, there are a couple of questions I should like to ask Mr. Towers. I do not know whether this was brought to the attention

[Mr. Graham Ford Towers.]

of the governor of the bank or not but I have a statement here dated May the 7th, from Premier Pattullo. I do not know whether Mr. Towers would wish to comment on it, but I think it is of sufficient importance that we should inquire into it. This is what Premier Pattullo is reported to have said, according to a Canadian press dispatch of May 7th:—

> Premier T. D. Pattullo Saturday night said in an interview that the British Columbia government has "no quarrel" with dominion officials, but said "certain financial and other interests in the east would appear to be working against the province."

Then he goes on to say:—

> It is a queer thing when British Columbia, which is getting along very nicely under all our circumstances, cannot go to the east and secure $3,000,000 for debt refunding purposes, without being forced to go outside the country for the money.

The article continues:

> (British Columbia raised a $3,000,000 private loan in New York recently. Finance Minister John Hart said in a Vancouver address that he had been unable to get the money in Canada.)

I am just wondering if the governor of the bank would wish to make any comment on the statement that, "certain financial and other interests in the east would appear to be working against the province." Also why British Columbia, whose credit was apparently good in the United States, cannot borrow from our eastern financial interests. It seems to me that is a most deplorable state of affairs.

Mr. Towers: I do not think that I should comment on that statement, Mr. Tucker.

Mr. Tucker: We are very much interested in it, as the banking and commerce committee, if a province like British Columbia, with its credit apparently regarded as good in a foreign country, cannot borrow the money from our financial interests in the east. I think all members of parliament are very much interested in such a state of affairs.

If you cannot give us any enlightenment or reason or suggestion as to what we might do about it, then I should like you to suggest where we might go for the necessary information, because it is a vital matter, the question of the right of our provinces to avail themselves of credit through the institutions which we have provided. After all, we have not set up the institutions for them to deny a province the right to get credit if it is credit-worthy.

Mr. Towers: In order to secure credit you have to find someone, of course, who is willing to buy your obligations. In the main that will depend on the course of events in the public market. Is it not possible that they were able to make what they thought was a more satisfactory deal in the United States?

Mr. Tucker: Well, he does not say that. He says:

> It is a queer thing when British Columbia, which is getting along very nicely under all the circumstances, cannot go to the east and secure $3,000,000 for debt refunding purposes, without being forced to go outside the country for the money.

Mr. Towers: He knows more about that than I do. I have no means of knowing whether he was forced or not to do so. Another thing is this, Mr. Tucker, and I am speaking from memory: The quotations on British Columbia securities in the open market indicate quite a high yield. Now I assume that British Columbia did not want to sell a new issue at that yield. Certainly they would not if they could do better in any other form. Therefore, a sale

of a British Columbia issue at this moment to the public, which could only take place, after all, at a price and yield comparable to those which one can obtain through buying the securities in the open market, might not have been satisfactory to the provincial government.

Mr. TUCKER: Yes, but I understood you the other day to say, when I questioned you, that there was difficulty in the banks getting suitable borrowings. Apparently the province of British Columbia is regarded as a suitable borrower by the United States interests, and if a province like British Columbia cannot borrow, is not regarded as a suitable borrower, then the banks are getting into the state of mind where, as the Minister of Finance says, they are not ready to take the necessary risks that they were once willing to take.

Mr. TOWERS: The public have a great influence on that, as you know, Mr. Tucker.

Mr. TUCKER: Is not this the situation, that now the banks have sufficient to pay dividends on their shares and to pay salaries they are not very desirous of taking any further risks or expanding in the way of making loans that are at all questionable, whereas once upon a time when they were trying to establish themselves so that they could pay dividends and salaries, they actually went out and tried to do business?

Mr. TOWERS: I would say that their desire to do business is as keen as it ever was. It may be that because of the fact that profits are low they do not feel in some cases justified in taking extra risks. I do not say that that necessarily applies to British Columbia.

Mr. TUCKER: You think the situation whereby British Columbia has been forced to go out and borrow $3,000,000 from a foreign country is a satisfactory situation?

Mr. TOWERS: Would it not be rather rash for me to attempt to analyse that situation, knowing no more about it than that newspaper report?

Mr. KINLEY: Do you know what they paid for that loan in New York?

Mr. TOWERS: There was reference to that in the newspapers. My belief is it was in the neighbourhood of 3½ per cent—a belief based only on the newspaper reports.

Mr. KINLEY: The point is that the banks and the trust companies can only buy these loans if they can sell them to their customers.

Mr. TUCKER: The banks do not have to sell them to their customers.

By Mr. Deachman:

Q. Would the depreciation in our dollar have any effect on it?—A. No, it is not sufficient.

Q. Where was the loan domiciled? It was a refunding loan?—A. There are various loans mostly held in the United States which are maturing—United States dollar loans.

Mr. TUCKER: I have not been able to attend every meeting to follow everything that has been said, and I should like to know if you have dealt with my question as to what effect the small tax on bank deposits would have.

Mr. TOWERS: I think so.

Mr. TUCKER: If you have dealt with it, it is okay. I have not been able to check up and see whether it has been dealt with or not.

Mr. TOWERS: It is on page 562 of the record.

The CHAIRMAN: Is it the pleasure of the committee to meet this afternoon at 4 o'clock? Mr. Macdonald will have the floor.

[Mr. Graham Ford Towers.]

Mr. Towers: Mr. Chairman, I have here a reply to Mr. Deachman's question of yesterday. Is it your pleasure that I should reserve that for this afternoon or read it now?

The Chairman: I think it might be well to reserve it for this afternoon.

The committee adjourned at 1 p.m. to meet again at 4 p.m. this afternoon.

AFTERNOON SESSION

The committee resumed at 4 o'clock.

The Chairman: Order; Mr. Macdonald has the floor.

In attendance: Mr. Graham Towers, Governor of the Bank of Canada.

By Mr. Macdonald:

Q. Mr. Chairman, I have a few questions I should like to ask the governor of the Bank of Canada. The first one is in regard to the price of wheat.

The Chairman: Before you begin, Mr. Macdonald, do you resent questions or interference, or do you invite it?

Mr. Macdonald: I have no objection to questions; I neither invite nor resent them, but I have no objection to them.

Mr. Jaques: Take it or leave it.

By Mr. Macdonald:

Q. From time to time during the sittings of this committee, it has been stated by different members of the committee that the price of farm products, more particularly wheat, is too low, compared with the price of other goods and services. My recollection is that statement was made, not in the form that I give it, but to that effect, from time to time.—A. Yes.

Q. Do you, Mr. Towers, know of any monetary action which could be taken which would raise the price of wheat so far as the Canadian producer is concerned?—A. I think I can only answer that in this way, that in so far as monetary policy can affect prices, it will only operate upon the general price level and it can do little in itself to correct disparities between the prices of individual commodities. Incidentally, on page 88 of the record there is a table which indicates that over the period since 1929 as a whole the relation of prices of primary products to other products appear to have been somewhat more favourable in Canada than, for example, in Australia.

Q. Yes; but I was not particularly concerned about what it has been, it is what it is now.—A. Yes.

Q. There has been considerable dissatisfaction expressed by those who are particularly interested in grain growers with the fact that the price of wheat is too low in their opinion compared with other products and other services. Now, I believe it was suggested that the Canadian dollar should be devalued in relation to the British pound. What effect would that have on the price of Canadian wheat?—A. The effect of depreciation on the general price level and some of the results which might follow from such depreciation, have been referred to. I think it can be found on page 84 and also page 201 of the record. I am not trying, as you can understand Mr. Macdonald, to avoid repetition, but on these earlier occasions the subject was, I think covered by questions to which we had the opportunity of drafting replies. Clearly an answer should be in the form of a careful statement. Whether these earlier statements cover the ground in a way which you want it covered or not, I am not sure.

Mr. Landeryou: Do you want to know whether monetary action would raise prices, without discussing disequilibrium of the price structure? Do you want to ascertain the fact whether or not it would raise prices?

Mr. Macdonald: That is the purpose of the question.

Mr. Towers: As we stated before, it would have the tendency to raise prices in Canadian dollars. Whether that rise would be equal to the depreciation is decidedly doubtful; whether it would in the end benefit the farmers is also a question which we discussed at an earlier meeting.

By Mr. Macdonald:

Q. I was coming to that later, but I just want to get the first question answered now, if I can, as to whether monetary action could be taken which would raise the price of wheat to the Canadian producer?—A. Depreciation would tend to do that, although probably not to the full extent of the depreciation.

Q. To a certain extent?—A. To a certain extent, probably it would have that tendency.

Q. Having in mind that wheat is a world commodity and the price is a world price, what effect would the devaluing of the dollar in relation to the pound sterling have on the value of goods purchased by the farmer? Now, take a specific instance. Tractors are not made in Canada. In the calendar year 1938 tractors were imported from the United States to the value of $11,232,997.

Mr. Landeryou: What year was that?

Mr. Macdonald: The calendar year of 1938.

By Mr. Macdonald:

Q. Other implements used by the farmers were imported in the same year to the value of $7,963,010. Now, if the dollar were devalued, what effect would that have on these goods?—A. In so far as any imports into Canada are concerned, I would expect that the Canadian cost would increase by the full amount of the depreciation, because I do not think that we are sufficiently important buyers of any manufactured products or commodities to be able to dictate terms; in other words, I do not think that a restriction of our purchases of any of these goods would be likely to cause a fall in their foreign price.

Q. How can we restrict purchases? We have to purchase tractors.—A. I am thinking of the restriction of purchases which might take place because of the fact that the Canadian price was a good deal higher; that is bound to cause some restrictions.

Mr. Landeryou: But, Mr. Macdonald, would we necessarily have to import our farm machinery from the United States? Just recently Germany proposed to exchange by a barter system some $30,000,000 worth of farm machinery for the equivalent in wheat; and under a policy of that nature there would not necessarily be any increase in the price of farm machinery.

Mr. Towers: But your imports from any country will be higher in cost in terms of Canadian dollars by the amount of the depreciation.

Mr. Landeryou: Well, under an exchange through a barter transaction?

Mr. Towers: Yes.

Mr. Landeryou: If we are bartering so many bushels of wheat for so many tractors, I do not see where the price factor or the exchange value of money, comes into it.

Mr. Towers: Then, under those terms, neither appreciation nor depreciation would enter into the picture.

Mr. Landeryou: That is it.

The Chairman: You mean it would not help your wheat and it would not hurt your tractors?

Mr. Towers: Right; you would be where you were before.

Mr. Quelch: I think we have not estimated the benefit to the farmers this way. At least 50 per cent of the farmer's income goes to pay debts. I do

[Mr. Graham Ford Towers.]

not think that is exaggerated, because according to the Bureau of Statistics, 76 per cent of the farmers either have mortgages or are buying their land on crop payments; so $33\frac{1}{3}$ per cent of their income goes to pay rent charges or mortgage charges, and another 17 per cent goes for goods produced in Canada. At least 17 per cent of their income would go for goods produced in Canada.

The CHAIRMAN: What percentage of the farms in Alberta are mortgaged?

Mr. QUELCH: In the three western provinces, according to the Bureau of Statistics, 76 per cent of the farms are either mortgaged or operated on the crop agreement, or rented, and under that condition as a rule the farmers turn over one-third of their crops alone for rent payments.

The CHAIRMAN: Mortgages. As I understood the figure—do you remember it, Mr. Deachman?—it was comparatively small. As I understood it the mortgage debt was around 30 per cent.

Mr. QUELCH: I got this figure from the Bureau of Statistics. Seventy-six per cent includes mortgages, agreements for sale, and rented land, these three. Mortgages were about 40 per cent alone in the three western provinces, so in that case $33\frac{1}{3}$ per cent of the income of the farmer goes to pay land charges. Then you have machine charges and various other charges.

Mr. LANDERYOU: Taxes.

Mr. QUELCH: And payment for goods purchased in Canada, and so the actual increase in prices due to the fact the farmer is paying higher prices for imported goods would be only a small portion of his income. He would be benefiting by depreciation on the whole income, and losing because of the appreciation to a very small extent.

The CHAIRMAN: That would only apply when the creditor was a Canadian.

Mr. QUELCH: The farmers invariably pay their debts in Canadian currency. Very few of them pay in New York or in England.

The CHAIRMAN: Some of the creditors have borrowed money abroad in order to loan it to the farmers. Now, how would they be affected?

Mr. QUELCH: That would not affect the farmer because—

The CHAIRMAN: I was speaking of the creditor.

Mr. QUELCH: I am referring to how it would affect the farmer.

Mr. TUCKER: How was he affected when our money was appreciated compared with United States money? That is another thing. They paid the people who borrowed abroad to loan in Canada. They paid at that time practically \$3 worth of debts for every \$2 they collected, and it was unjust discrimination against the farmer in favour of the financial institutions of this country at that time.

The CHAIRMAN: But, of course, it seems to me in this committee, if you do not mind my saying so, that we sometimes overlook the fact that there is a difference between passive capital and active capital. The lender is a passive capitalist; he depends for his earnings upon a fixed rate of interest. You may like or you may not like the capitalist system but it seems to me that we must face it. The active capitalist in this case, the farmer, goes searching for profit. Now, if we take periods—for instance, I go back one period to war time prices for wheat, when the active capitalists made huge profits.

Mr. TUCKER: No, he did not.

The CHAIRMAN: I beg your pardon; the record will show that.

Mr. TUCKER: You do not know anything about the situation in the West if you say that.

The CHAIRMAN: Just a minute. May I finish my statement

Mr. TUCKER: It is not true; he did not make a profit.

The CHAIRMAN: If I am going to be interrupted in that way, of course, I am going to discontinue. You said a statement is not true before you have heard my statement. If you are going to make a remark like that I won't carry on the argument.

Mr. TUCKER: I am sorry if you feel that way.

The CHAIRMAN: I think it is distinctly rude.

Mr. TUCKER: If you tell me the farmers in the West made big profits, I just simply say it is not a fact, that is all.

The CHAIRMAN: Mr. Tucker, may I say I sat in this committee and listened to many statements I did not believe, but I did not say they were not true; I held my peace.

Mr. TUCKER: If you disagreed with me, I would not get angry.

The CHAIRMAN: I do get angry with you when you say I was saying something that is not true before I have finished what I was going to say.

Mr. TUCKER: I did not mean it was not true, but it is not a fact.

The CHAIRMAN: We cannot continue a discussion of that kind.

By Mr. Macdonald:

Q. Then, Mr. Towers, you would say that so far as the payment for goods imported is concerned, any benefit that would come to the wheat grower by devaluing the dollar in relation to the pound, would be lost in respect of what he had to buy from foreign countries?—A. Yes.

Mr. LANDERYOU: In only particular cases would that be true. Suppose we were dealing with cotton goods and manufactured goods from Japan. We could bring them in here a good deal cheaper than it would cost from any country in the world. In fact, I remember reading an article in the paper where a member of parliament rose in the house in Great Britain and stated in reference to some article he held over his arm, that if they had their overhead paid and their wages paid, they could not produce the goods as cheaply as they got them from Japan.

Mr. TOWERS: The answer I made to Mr. Macdonald should probably be elaborated. To repeat what I said before: to the extent that goods are imported —I am referring not only to finished goods but to materials for manufacture in Canada—the cost of these imports in Canada would increase by the amount of the depreciation. Naturally, in the case of certain finished goods in Canada, 100 per cent of the cost of the goods is not represented by imported materials. These goods probably would not rise in price in the first instance to the full extent of the depreciation. To the extent that labour was a factor in the cost, wages are slow, very often, to change, subsequent to depreciation. This is part of the transfer between various sections of the economy. The primary producer is probably a little ahead of the game for a while at the expense of the other people in the community. Labour is the main sufferer, I would say, although you can also include all forms of consumers.

Mr. LANDERYOU: Tariff charges make up a large portion of the cost of imported goods; is that not true?

Mr. MACDONALD: Not necessarily.

Mr. TOWERS: Leaving that aside, I assume that in spite of depreciation, tariff rates stay the same and therefore that the added cost is equal to the amount of the depreciation.

Mr. LANDERYOU: We are discussing the position of the farmers in western Canada particularly, and it has been established, at least to my mind, that tariff charges work inimically to the interests of western farmers.

Mr. MACDONALD: I will go into that a little later on.

[Mr. Graham Ford Towers.]

Mr. LANDERYOU: It enters into the whole picture.

Mr. MACDONALD: I do not think that tariff charges necessarily increase the cost of any article. There is competition within the country and that would overcome any tariff charge which might be placed on the goods. All the tariff does is to assure a market. If there is competition within the country then the cost of the goods should not be increased on account of the tariff.

Mr. QUELCH: I do not think Mr. Towers should leave that statement in the way he did. He stated if we had a depreciated currency the farmers would benefit at the expense of other classes of society.

Mr. TOWERS: Would benefit for a time.

Mr. QUELCH: It is also true to say that owing to the fact that we have appreciated our currency above sterling certain classes of society have benefited at the expense of the farmers, to make the picture complete. Professor Upgren, in his Manitoba brief, claims it has cost the prairie provinces since 1931 to 1936, $47,000,000 a year.

Mr. TOWERS: Perhaps one should remember that for a period of years the Canadian dollar was at a discount on sterling.

Mr. QUELCH: The Canadian dollar?

Mr. TOWERS: Yes.

Mr. QUELCH: Yes, but the statement was that if we had depreciated our currency to the same extent that Australia had, that is, 25 per cent below sterling, western farmers would have gained $47,000,000 a year from 1931 to 1936.

Mr. TOWERS: With all due deference to Professor Upgren I think it is almost impossible to make calculations of that kind.

Mr. QUELCH: That is, all other things being equal.

Mr. TOWERS: Since you say "all other things being equal," the argument is shot. I am not saying behind his back what I have not already said to his face.

The CHAIRMAN: Mr. Quelch, may I suggest something there, that exchange dumping invariably brings about tariff protection. We in Canada, when there was exchange dumping on behalf of Germany, were the first country in the world to put up a tariff barrier. Now, the comparison between Australia and Canada ought to have the two central thoughts brought out. In the first place, Australia was forced into devaluation; Canada at the time was not forced; at any rate, it got along without devaluation. In the second place Australia had only a comparatively or a relatively small portion of the world's wheat market, about 12 per cent, and for the first five years after the war Canada had about 38 per cent. So that it is natural to suppose there would have been more tariff action even than there had been as a result of exchange dumping.

Mr. QUELCH: I am not advocating currency depreciation. When this matter came up once before I stated that I could not see that Canada as a whole would benefit, and I was merely stating that in view of the fact that we have maintained an appreciated currency the farmer has been penalized, and to that extent there is justification for a bonus or a subsidy to the farmer to compensate him for that loss. It is merely price cutting.

The CHAIRMAN: The point I tried to make was that it was questionable, as the governor said, whether he had been penalized or not, because he might have been further penalized by a raising of the tariff against his exports under currency devaluation.

Mr. QUELCH: Did that hold good in the case of Australia in so far as wheat is concerned?

Mr. TOWERS: Oh, I do not think it did.

The CHAIRMAN: But Australia had 12 per cent of the market and we had 38 per cent.

Mr. TOWERS: Perhaps I should interject something there, that in speaking of this particular subject I have tried throughout not to say whether I thought such and such a thing should be done or should not be done, but simply to limit myself to trying to show some of the effects.

The CHAIRMAN: Proceed, Mr. Macdonald.

Mr. MACDONALD: I will leave that—

The CHAIRMAN: —highly controversial subject.

Mr. MACDONALD: —and get on to another subject. We have discussed in this committee from time to time the question of savings. Personally I have not been entirely satisfied with the presentation of the subject. I think we ought to have more information on it. We assume that the savings are all expressed in bank deposits.

Mr. TOWERS: That was the point with which I took issue at an earlier meeting by saying that I thought in reality they were expressed in terms of physical assets, although those may be denominated in terms of dollars and cents as, for example, when a person holds part of a bond issue on a factory.

By Mr. Macdonald:

Q. There is no doubt that you would say the savings of a nation are very important and the future of any nation depends to a considerable extent upon savings?—A. On the savings in the form of its physical equipment, the character of which will assist or retard production.

Q. Would it be possible for us to have a picture in tabloid, say, for the years 1928, 1932 and 1938. I take those years more or less at random. I think 1928 we could say was the height of prosperity, 1932 the depth and 1938 the present time. Could we have a statement showing the deposits in the commercial banks and in the federal institutions, such as the post office, the provincial savings bank, trust companies and loan companies and other institutions that take in savings?—A. I am not quite sure about the dates you mention, but we have quite a few figures on the record now in that respect. However, I will check that up.

Q. Could we have a table for those three years?—A. Yes.

Q. And then could you show the insurance premiums?—A. The annual insurance premiums in those three years?

Q. Yes.—A. I think so.

Q. Including in that government annuity payments.—A. Receipts?

Q. Receipts. And then on the other side we could have a statement showing the shrinkage of industrial capital.—A. I doubt whether it is possible to get statistics on that.

The CHAIRMAN: In the form of dividends paid.

Mr. TOWERS: In the form of dividends paid, yes, that is possible.

By Mr. Macdonald:

Q. With regard to the shrinkage of industrial capital, as the chairman has said, that could be done, could it not, by showing the dividend payments in those years?—A. It would give an indication of changes in earning capacity in that time, yes.

Mr. DEACHMAN: There is a recorded statement from the Bureau of Statistics of the capital employed in industry. I do not know how accurate the calculations are.

Mr. TOWERS: That is true. I am not familiar with the way in which those figures are made up.

[Mr. Graham Ford Towers.]

Mr. DEACHMAN: It is a statement simply of each company which records its capital, employees and the value of its products.

Mr. TOWERS: Yes.

By Mr. Macdonald:

Q. I think if you could prepare such a statement it would be of assistance to the committee.—A. Yes.

Mr. LANDERYOU: In relation to insurance you stated you could secure figures showing total premiums paid. Is it life insurance you want particularly?

Mr. MACDONALD: I had in mind life insurance. There are other forms. There is also accident insurance.

Mr. LANDERYOU: If you had it confined to life insurance and accident insurance could you give the figures showing the total premiums received and losses sustained by those companies in Canada including the adjustment expenses, so that we would know how much money was paid out in the form of death claims and for matured endowments, etc.

Mr. TOWERS: We could try. As you know, anything we did there would depend on what is available from the Department of Insurance.

Mr. JAQUES: Mr. Macdonald, with regard to savings, is it not rather the effect of savings that we should discuss more than the statistics?

Mr. MACDONALD: We have discussed the effect of savings from time to time. I believe you discussed them.

Mr. JAQUES: I should like to give you—

Mr. MACDONALD: I was not going into that just now. I wanted more to get these figures properly before the committee because I do not think you can discuss these things unless you have the correct picture, and I do not think we have had the correct picture to date.

Mr. JAQUES: I merely wanted to make a statement in one sentence on the effect of savings. Savings by individuals decrease purchasing power without lowering prices. Savings by institutions and corporations increase prices without increasing purchasing power.

Mr. MACDONALD: That is your statement. I had not intended to discuss the effect of it now, but you want that statement on record?

Mr. JAQUES: Yes.

The CHAIRMAN: Supposing we have the governor's opinion on that.

Mr. TOWERS: I do not agree with that statement in any way, shape or form, Mr. Jaques, but as I said earlier, what has happened here, after all, is that you have made a statement without giving any reasons why such a thing should be true. And I have said that I do not agree with it, also without giving reasons. But if I could get from you the reasons why you believe such a thing to be the case, then it would be much easier to make an analysis of it, would it not?

Mr. JAQUES: When Mr. Macdonald is through.

Mr. MACDONALD: Yes, if that is satisfactory to the governor. If I could continue in the meantime, then we can come back to it.

Mr. TOWERS: Yes. Although perhaps this would not be in accordance with the procedure that the committee expects to follow, if I could even get hold of a brief memorandum on the subject, it would be a helpful way of getting ahead.

The CHAIRMAN: And place it on the record?

Mr. DEACHMAN: You mean from Mr. Jaques?

Mr. TOWERS: Yes.

Mr. JAQUES: You mean a memorandum?

Mr. Towers: I said I did not want to make any suggestion which would not be in accordance with the usual procedure, but that would be one practical way of doing it.

Mr. Jaques: You mean I should submit a written statement?

Mr. Towers: So that I could understand what was in your mind.

Mr. Macdonald: In regard to the statement which you made to me, the governor has suggested that you elaborate on that by giving him your reasons.

Mr. Jaques: At a later time when you are through?

Mr. Macdonald: Yes, or a memorandum in writing.

Mr. Landeryou: I was very interested in the question you directed, Mr. Macdonald, to the governor of the Bank of Canada in relation to the amount of premiums collected by insurance companies. Could you explain to me the reason why you are interested—as that is a form of saving—in securing these figures?

Mr. Macdonald: I wanted to secure them for the benefit of the committee, because we have no statement which shows the amount of money on deposit in the banks; and that has been assumed from time to time—we have jumped to the conclusion that that represents all the savings. That, obviously, does not represent all the savings. Some of them may be included in those deposits, but the insurance companies also have other savings which they put in other forms. In order to have a complete picture, we should have this statement of insurance companies.

Mr. Landeryou: I believe we should have a complete picture. I have before me here a few figures—seeing that this matter has come up—showing the effect upon the province of Alberta of the operations of insurance companies. I should just like to indicate to Mr. Towers what information I should like in this regard.

Mr. Macdonald: I said at the outset that I did not object to interruptions. I do not think that Mr. Landeryou wants to interrupt me at any length.

Mr. Landeryou: No, I did not intend to interrupt. I was very interested in your question.

Mr. Macdonald: I think it is quite proper for you to ask a question.

Mr. Landeryou: There are operating in Canada insurance companies incorporated in Great Britain and others with head offices in foreign countries, as well as Canadian companies, provincial and extra-provincial companies are doing business in Canada. The effect of their operations in the province of Alberta has been, in my opinion, inimical to the best interests of that province. The savings that the people of Alberta put in those insurance companies have not been returned to them in proportions that would justify the continuance of such a policy as investing their savings in foreign companies. For instance, in the province of Alberta, there were forty-four Canadian companies listed as doing business in 1934, sixty-one British companies, ninety-three foreign companies, two provincial companies and three extra-provincial companies, selling fire insurance. The Canadian companies took $1,065,694.30 in premiums—that is, gross less return premiums; the British companies, $1,631,082.31; the foreign companies, $1,308,801.82; the provincial companies, $4,345.02; the extra-provincial companies, $100,155.70. The total for 1936, gross less return premiums was $4,110,082.15; for 1935 it was $4,357,667.79; and in 1934 it was $4,455,991.31, or a total for the three-year period of $12,923,741.25. The greatest portion of those premiums went to the British and foreign companies. The total net losses incurred, including adjustment expenses, for the three-year period were: In 1936, $899,473.37; in 1935, $1,047,570.26; in 1934, $1,060,161.70, or a total of $3,007,105.33. So that on that premium total of $12,923,741.25, the net losses were only $3,007,105.33 for the three-year period.

[Mr. Graham Ford Towers.]

Mr. MACDONALD: Just a minute. I did want to try to get through today. I do not know how long you proposed to go on.

Mr. LANDERYOU: I just wanted to finish this. It would only take me two minutes to put in a picture of this relation of profits to losses.

Mr. MACDONALD: I said at the outset that I had no objection to questions; but I said nothing about speeches.

Mr. LANDERYOU: I do not intend to make a speech. What I wanted to do was to get the same facts for the dominion of Canada as I had secured for the province of Alberta.

Mr. MACDONALD: All right.

Mr. LANDERYOU: I think that would help you.

Mr. MACDONALD: I think so. You can ask that.

Mr. LANDERYOU: That is what I had in mind. I will just give it as I have it here for 1934 and it will not take me but two or three minutes. The gross premium, less return premiums, for fire insurance companies for 1934 were $4,455,991.31. The total net losses incurred, including adjustment expenses, were $1,060,161.70. For automobile insurance companies the gross, less return premiums, were $695,321.85 and the losses were $437,611.57; for hail insurance companies the gross, less return premiums, were $225,049.08 and the net losses were $81,404.51. For miscellaneous insurance companies, the gross, less return premiums, were $728,326.51 and the net losses incurred were $336,303. This makes a total net loss for those four groups of companies—fire insurance, auto insurance, hail insurance, and miscellaneous insurance—of $1,915,480.78, while the total premiums paid by the people of Alberta amounted to $6,104,688.75. The life insurance premiums for that year totalled $11,226,210.72. Altogether the premiums paid by the province of Alberta on fire insurance, automobile insurance, hail insurance, miscellaneous insurance and life insurance total $17,330,-899.47. The total losses, including adjustment expenses, of all those companies is set out in this way: $1,915,480.78 for the four groups of companies I have mentioned; and for life insurance, death claims were $2,103,087.93; matured endowments, $510,331.51; dividends, $1,835,418.58, making a total of $4,448,838.02, the total losses, including adjustment expenses, on the part of the life insurance companies. So the total of all the companies amounted to $6,364,318.80—that is the total net losses, including adjustment expenses—while on the other hand, the gross less return premiums of these companies were $17,330,899.47. These companies have tremendous investments in Alberta and are getting tremendous revenues off them. If they do not desire to invest their surplus earnings in the province of Alberta, they can invest them some place else, and Alberta gets no advantage through the re-investment of their savings in their own province for the development of that province.

The CHAIRMAN: Mr. Landeryou, I think you should allow Mr. Macdonald to proceed.

Mr. LANDERYOU: I should like to finish this one sentence.

The CHAIRMAN: I know, but you have taken two minutes, now it is five—

Mr. LANDERYOU: One sentence and I shall conclude.

The CHAIRMAN: All right.

Mr. LANDERYOU: I should like to have a complete picture, if it is possible, of the operations of all these insurance companies in Canada, showing the effect upon Canada.

Mr. TOWERS: I wonder if we are the people best qualified to give that information? At best it would be second-hand, because we are not experts on that subject. I assume that the Department of Insurance know a great deal more about it than we do.

Mr. LANDERYOU: Possibly.

The CHAIRMAN: Proceed, Mr. Macdonald.

Mr. LANDERYOU: Then we cannot get information to show the effect of the savings in insurance.

Mr. DEACHMAN: The story would not be complete, because there are investments on the other side. We hold insurance securities investments.

Mr. LANDERYOU: I should like to get the complete picture.

Mr. MACDONALD: The statement I made at the outset still holds good, that I have no objection to interruptions; but I think that they should be more in the way of questions than long statements or else I shall hardly get through. I shall forget what I am talking about myself.

The CHAIRMAN: Proceed, Mr. Macdonald.

By Mr. Macdonald:

Q. Mr. Governor, according to the evidence given to this committee, there are 4,122,963 savings accounts or what the banks call notice accounts?—A. Yes.

Q. In the banks of the Dominion of Canada?—A. Yes.

Q. The total amount of those savings is $1,659,646,000. That was in December, 1938?—A. October.

Q. October, at least.—A. October, 1938.

Q. Yes, October, 1938.—A. Yes.

Q. It has been suggested by members of the committee that the government should print and put into circulation by means of public works or otherwise, a certain sum of money. In fact, some members have gone so far as to suggest that $200,000,000 should be given to the people directly. Irrespective of the method of distribution, and bearing in mind that many of these savings accounts have been accumulated by the efforts of hard work, and often by actual manual labour, and by the sacrifices of those who have gathered their savings together, and also having in mind the fact that many of these savings accounts were the accumulated savings of numerous people, which are represented by deposits in insurance companies, what would be the effect on these savings of the creation and distribution of $200,000,000 of so-called debt-free money?—A. We come there again, as you have in mind, to the question of inflation. I do not think that anyone could say that such and such an addition to the medium of exchange will cause a certain degree of inflation, and not more or less.

Q. It would be inflation. There is no doubt of that.—A. It would undoubtedly have that tendency.

Mr. LANDERYOU: Do you mean uncontrolled inflation? Naturally, it is an addition of money. Do you mean by that an addition of money or do you mean an absolute inflation where prices will rise and there will be a dislocation of trade? What do you mean by that?

Mr. MACDONALD: Would the printing of $200,000,000 cause inflation?

The CHAIRMAN: Some inflation.

Mr. MACDONALD: Some inflation.

Mr. TOWERS: I would guess that it would,, yes.

Mr. MACDONALD: Yes.

Mr. TUCKER: That it would what?

Mr. TOWERS: That it would cause inflation.

Mr. TUCKER: You mean a general rise in the price level?

Mr. TOWERS: Yes.

By Mr. Quelch:

Q. Are you basing that on the thought that the chartered banks would be expanding upon that issue?—A. Yes; even although they did not expand in full, I would still think that that would be sufficient to cause an inflationary situation.

Q. Without any expansion on the part of the chartered banks?—A. No. I would say particularly with some degree of expansion on the part of the banks.

Q. Suppose steps were taken to prevent the chartered banks— —A. I beg your pardon?

Q. If steps were taken to prevent the chartered banks from expanding, it might be possible to add $200,000,000, if it were used in a certain way, and it might not cause a rise in prices, in view of the fact, that we have a favourable balance of payments of $185,000,000?—A. That would be difficult to answer categorically. But, in any event, of course, that suggestion of a possible expansion in currency, sterilized to a major extent by raising the minimum reserve requirements of the chartered banks, was one which was made by Mr. Tucker early in the hearings; the effects of that so far as the country as a whole was concerned, we tried to list in an earlier memorandum.

By Mr. Tucker:

Q. In that event, of course, prices would not necessarily rise?—A. They would not necessarily rise. Monetary policy, as you know, is not an exact science. There has been a considerable expansion of deposits in the last few years. That has not had an inflationary effect, partly because money has tended to be rather idle. If you get into the minds of people the thought that not only are there increases taking place, but that the method of approach is such that there well may be larger increases at a later date, then you may very well stimulate a fear in respect to the future which will result in a fright movement from the currency; and then you have inflation with a bang.

Mr. TUCKER: What I can't understand about that, if your factories are not working at full capacity and if you have a great deal of unemployment and if you get a great increase in the demand for consumable goods there will be a reduction of your overhead, of your factory burden attached to each item of goods; why should there be a rise in prices? In other words, if the farmers were, for example, to have their purchasing powers increased so that they could buy supplies of farm machinery that could be put out by the farm implement manufacturers of Canada who could quite easily produce with their present equipment all that would be required; so that it seems to me that instead of prices rising they would fall, if you had proper play of competition.

Mr. TOWERS: Proper play of competition—perfect direction of production —complete mobility of labour and many other things. We have tried to express our views, and I think we have dealt with this particular angle of the subject.

Mr. TUCKER: But the difficulty is more purchasing power.

Mr. TOWERS: I think we dealt with that on page 194.

Mr. TUCKER: Then Mr. Macdonald asked you the question that if you printed $200,000,000, or if you issued $200,000,000, without any qualifications; and your answer was without qualifications that you would get a rise in prices; that negates all that has gone before. Someone might pick up this report and read it and they might see your answer in that form and they might say, Mr. Towers said this, there it is.

Mr. TOWERS: I should be sorry through giving too brief answers to cause a wrong impression. It may be that in trying to give quick answers rather than reserving reply for written ones, that a wrong impression has been given, to you at least.

Mr. TUCKER: I am not worrying about myself.

Mr. TOWERS: I understand.

Mr. TUCKER: Anyone picking up that report and seeing it might be misled.

Mr. LANDERYOU: I have just one question on that point which I would like to ask.

The CHAIRMAN: Mr. Macdonald, if you don't mind.

Mr. MACDONALD: I don't mind, if it is just one question.

Mr. LANDERYOU: That is all I want to ask.

The CHAIRMAN: You are very prone to make speeches when you say you just want to ask a question; but you have said that you just want to ask one question and it is on the record.

By Mr. Landeryou:

Q. In answer to the question as to whether or not the issue of two hundred millions of dollars of free money would create inflation you stated that it would have tendency to create inflation; by that answer do you mean to imply that it would create a condition which would be harmful to the economic condition of Canada?—A. Yes.

By Mr. Macdonald:

Q. Now, the question which I asked with regard to the number of savings accounts and the amount of savings; the other day in this committee, on Tuesday, May 2nd, in the report of the committee at page 243, Mr. Landeryou stated:—

> Q. I am correct in that?—A. I would say, just working it out roughly here, that about 92 per cent have 27 per cent, or something like that.

Now, in other words, Mr. Landeryou stated that 92 per cent of the depositors had 27 per cent of the money, and he further went on to say that would mean that 8 per cent of the total depositors held 73 per cent of the total deposits. Now I think that hardly sets forth the conidtions correctly?

Mr. LANDERYOU: Those figures were obtained from the bank.

The CHAIRMAN: Order, gentlemen.

By Mr. Macdonald:

Q. Just one minute. I have a statement which was tabled in the house, a statement which comes down each year on the classification of deposits in Canada as of October 1st, 1938, and that statement shows deposits payable on demand and deposits payable after notice. And now, according to the statement of Mr. Landeryou the 8 per cent would include all the deposits except the deposits payable after notice of $1,000 or less?—A. I do not understand that, would you repeat it?

Q. The statement that 8 per cent of the people control 73 per cent of the total deposits?—A. Eight per cent of the deposits in savings accounts.

Q. Yes.—A. Have 73 per cent of the total savings deposits.

Q. No, he doesn't say savings deposits; that would include both deposits payable on demand and deposits payable on notice?—A. I am wrong then. That 8 and 73 do represent figures applicable to the total number of deposit accounts and the total amount of the deposits.

Mr. LANDERYOU: Those answers there are not mine. Those are answers to my questions directed to Mr. Towers himself, and are his answers.

[Mr. Graham Ford Towers.]

By Mr. Macdonald:

Q. Then, Mr. Towers' answer is to the effect that the 8 per cent and the 73 per cent of the deposits include all deposits whether demand or notice?—A. In chartered banks.

Q. In chartered banks. Now, the deposits up to $1,000 or less on demand total 604,490 representing $88,127,361.37?—A. I have the round amount here. I would say that is right.

Q. I suppose they include all small accounts which are held by small merchants?—A. No doubt.

Q. Garage men?—A. Yes.

Q. And what we call small people doing business on the smaller scale?—A. Yes.

Q. So that in that 8 per cent there would be a lot of what we call little fellows in the way of business?—A. Yes.

Q. So that if any impression went abroad from your statement that 8 per cent of the total deposits were held by big businessmen that would be incorrect?—A. I think I may have made a mistake there, the 8 per cent refers to 8 per cent of the number of deposit accounts, doesn't it?

Q. Yes. Eight per cent compares to the number of deposit accounts?—A. The small accounts that you refer to would be in the 92 per cent, would they not?

Q. No, not on this statement, this is just with regard to the savings. The 8 per cent is after taking out the savings deposits of $1,000 or less. They amount to 73 per cent.—A. I don't think so.

Q. Or, do they not amount to 92 per cent of the number of depositors and the 27 per cent of the deposits?—A. Savings and demand combined, yes.

Q. Yes. So then the 8 per cent——?—A. Represents the number of depositors, the proportion of depositors with accounts whether demand or savings in excess of $1,000.

Q. I hardly think the figures would work out that way. I think my compilation would show that you have demand and savings deposits of less than $1,000, and they come to 73 per cent of the deposits?—A. I do not think they do. All savings deposits of $1,000 or less amount to $452,000,000 out of the total of deposits of $1,655,000,000.

Q. That is just savings?—A. That is just savings; in other words, a little less than 25 per cent.

Q. Then when you take in the other figures of demand——?—A. The demand deposits of less than $1,000 are $88,000,000 out of a total of $749,000,000; in other words, about 12 per cent of the total.

Q. Well, there is no doubt that in these deposits of $1,000 or less there would be the small businessmen?—A. Yes.

Q. And you said that the 8 per cent does not include them?—A. The 8 per cent is the number of depositors, or the proportion of depositors with accounts of more than $1,000.

Q. That is savings accounts?—A. Both, but I could do it for one or the other.

Q. There is no doubt that many depositors have current accounts of less than $1,000?—A. There are 604,000.

Q. What is it in savings accounts?—A. The total number of savings accounts is 4,123,000. Accounts of $1,000 or less, numbered 3,797,481.

Q. And that is, those of $1,000 or less?—A. Yes.

Q. And now, the man who has $1,001; where would he come in?—A. He would be in the range of $1,000 to $5,000.

Q. And if he had $1,005, he would be in that class?—A. Yes. There are 284,000 of such accounts.

Q. 284,243 accounts of depositors having deposits ranging from $1,000 to $5,000?—A. In the notice deposit category.

Q. That is all within the general term of savings banks?—A. Yes.

Q. That totals 4,081,724? Is that correct?—A. I think so, yes.

Q. And they have $1,024,485,657.04?—A. Yes.

Q. And that would represent 62 per cent of the total savings deposits?—A. Yes.

Q. And if we average the number of depositors having $5,000 or less, 4,081,724 into the total amount of their deposits, that is $1,024,485,657.04, each depositor would have an average of $250.99?—A. Approximately, yes.

Q. So that I would be correct in saying that there are to-day in the savings accounts or notice accounts 4,081,724 accounts having an average deposit of $251?—A. In the class of accounts ranging from $1 to $5,000.

Q. Yes. Well—no. I am taking the small men, the men with $5,000 or less?

Mr. LANDERYOU: Why not take $1,000 or less, those are the small accounts which come within the figure of $1,000 or less, why bring in $1,000 to $5,000?

Mr. MACDONALD: I took in the higher group because I do not think it is fair and because the man who has $1,001 automatically comes into the $5,000 group of accounts. I think it is more fair to take all the savings accounts below $5,000 and average; and I find that 60 per cent of the total savings deposits in our banks to-day are held by people having less than $5,000, in fact they average $251.

Mr. LANDERYOU: That does not tell a complete story because there are 3,000,000 depositors who have on deposit less than $1,000 or an average of from $117 to $125 apiece. That is the bulk of the deposits.

Mr. MACDONALD: We have to get a fair picture, and I think a more fair picture would be obtained by taking all the small deposits. My idea in having all the small deposits is not by taking in the $999 and leaving out the man who has $1,001 on deposit.

Mr. QUELCH: To a great many people in Canada a deposit of $5,000 is a very large deposit.

Mr. MACDONALD: So I average them all, the man who has only $1 in the bank up to the man who has $5,000; I average them, and as I said before, I find that 62 per cent of our depositors are in that class and they have $251 each in the bank.

By Mr. Macdonald:

Q. Now, Mr. Towers, if there were inflation how would the value of these accounts be affected?—A. A change in the value of money, of course, affects not only savings depositors but also anyone who has a fixed obligation in his favour. That applies to savings deposits, life insurance policies, to bonds or preferred stock with a fixed dividend, and to a certain extent to wages or salaries which are not necessarily fixed over a term by contract, but do not change very readily.

Q. Suppose inflation depreciated the value of these savings 50 per cent, a man with $251 as savings would find that his savings would be depreciated to the value of $125.50.—A. They would have a purchasing power that would be equivalent to that, yes.

Q. And the man with $25,000 in the bank would find that his savings would be depreciated to having a purchasing value of $12,500?—A. Yes.

Q. So then, would I be correct in saying that the little fellow—the chap with the $251—would feel the pinch, and feel it worse?—A. That is probably the case because he has not usualy got the means for taking advantage of the inflation. By taking advantage, I mean the advantage that an individual can take of such circumstances. He probably has not got as good a means of offsetting the sacrifice by appropriate steps in the form of switching his investments or doing something else which will bring grist to his mill.

[Mr. Graham Ford Towers.]

Q. And also the man with the bigger deposit would have $12,500 left anyway of purchasing value and the other man would have left only $125.50.—A. In respect to that particular asset, in the form of savings accounts.

Q. I suppose that would affect all accounts, whether they were savings or demand accounts?—A. Yes; it affects all fixed obligations phrased in terms of money.

Q. And is it true that practically all municipalities have accounts in the banks, money on deposit?—A. Yes, usually.

Q. School boards?—A. Yes.

Q. And municipal institutions, such as municipal railways?—A. Yes.

Q. And hydro commissions?—A. Yes, although of course, it is a pretty long complicated story to work out the effects, to the extent that anyone can, on the various sections of the community. There is a transfer of wealth that takes place.

Q. We are just now assuming that there was inflation to the extent of 50 per cent?—A. I know that you are speaking of the effects.

Mr. LANDERYOU: How much money would it take to arrive at that?

By Mr. Macdonald:

Q. I am speaking of the effect in respect to these particular things only.—A. Yes.

Q. Do you know whether or not it is so that the Toronto Hydro Commission, for instance, has $3,000,000 on deposit?—A. I do not know, but it does not sound an unduly large amount.

Q. And other hydro commissions throughout Ontario have substantial deposits?—A. I dare say they have.

Q. And the provincial and federal governments have deposits?—A. Yes.

Q. And the United Grain Growers and other grain organizations have deposits?—A. All business organizations have.

Q. And there is no doubt about insurance companies having deposits?—A. Yes, but not large in proportion to their business.

Q. But they would be substantial?—A. Oh, yes.

Q. And churches all have money on deposit?—A. I hope so.

Q. And trades and labour unions mostly have deposits?—A. Yes, or investments. I would say deposits are only one feature of the whole thing.

Q. And fraternal societies?—A. Yes.

Q. As I say, if there were inflation to the extent, say, of devaluing the money only 50 per cent, would not all the accounts of these institutions that I have mentioned be affected to the same extent?—A. Yes; to find out the total effect on them, of course, one would have to examine their other assets, their other forms of activity to find out whether in the course of the transfer of wealth which took place, they might be ahead of the game, and others behind.

Q. I am talking about money on deposit.—A. On that particular aspect of their affairs they would be behind, of course.

Mr. LANDERYOU: How much money would have to be issued under this proposition? How much capital would have to be moved into the financial structure of Canada in order to create such a situation that there would be 50 per cent depreciation in the value of the dollar? How much money are you talking about?

Mr. MACDONALD: I started with a suggestion of $200,000,000 printed and distributed immediately.

Mr. QUELCH: You do not wish to leave the impression that $200,000,000 would cause a 50 per cent depreciation?

Mr. MACDONALD: I do not. It is my own opinion, once $200,000,000 were printed and distributed there would soon be a demand for another $200,000,000

and there would be a loss of confidence in Canada if even $200,000,000 were printed and distributed; but I should like to know what the governor of the Bank of Canada has to say in regard to that.

Mr. TOWERS: I do not know. It depends on psychology and the assumption of what the future is likely to hold.

By Mr. Landeryou:

Q. Mr. Towers, there has been an increase in bank deposits through the sale of bonds to the banks?—A. Or banks purchases of government securities of various kinds.

Q. The banks purchase of government securities have created in fact $500,000,000 in the last few years?—A. This amount that Mr. Macdonald has mentioned is far far in excess of that?

Q. Not the $200,000,000 he mentioned.—A. The increase in cash in the last few years has been approximately $47,000,000.

Mr. TAYLOR: May I ask a question here?

Mr. LANDERYOU: I want to finish.

Mr. TAYLOR: Is not inflation a condition of the minds of the people, and not a matter arising out of an extra-sensory perception? What I want to arrive at is this. You have yourself expanded the currency of the country by $450,000,000 during the existence of the bank.

Mr. TOWERS: Have taken action which enabled that other thing to take place.

By Mr. Taylor:

Q. Exactly. Suppose that on the formation of the Bank of Canada the question had arisen in the house, what do you intend to do? And the Minister of Finance had said, I propose in the next five years to increase the currency position of this country by $500,000,000. Would the people have accepted that as anything but inflation?—A. I think they would have considered it a rather rash statement because they would have realized that he could not know what the changes of the next four years would be.

Q. But you have infused that extra currency and they have taken it like little lambs?—A. The conditions of the times have probably produced that. That does not necessarily mean that the process could be continued ad nauseam, of course.

Q. I quite agree with that. I only want to establish the firm belief that inflation is a matter arising locally and in the minds of the people. You can create a local inflation by a local condition, or you can create a country inflation by a countrywide condition. It arises, and has inception in the minds of the people themselves.

Mr. MACDONALD: If I could get on, I should be very pleased. I do want to get through. Could you reserve as many questions as possible until the end?

Mr. LANDERYOU: I have one question.

Mr. MACDONALD: You might reserve it until the end.

By Mr. Macdonald:

Q. I am thinking particularly of deposits, and more particularly of the statements that have been made from time to time that the banks create deposits. I think that should be cleared up. It seems to be a part of the stock-in-trade that money is created and can be created out of thin air. Now, if that can be done, I think we should know how it is done. I should like to go through this.

Mr. LANDERYOU: Would you like me to explain how it is done?

Mr. MACDONALD: I should like to ask a question to know whether or not I am right, with regard to money.

[Mr. Graham Ford Towers.]

By Mr. Macdonald:

Q. Suppose a man needs money and he goes to the bank—I want to know whether I am right in this sequence of events—and he deposits a security, it is either personal or collateral, and he arranges a loan. He might take part of it with him and he might leave part of it in the bank.

Mr. LANDERYOU: What part does he take with him?

Mr. MACDONALD: He may take part of the cash with him and leave part of it in the bank.

By Mr. Macdonald:

Q. Is that the sense in which it is said that the banks create deposits?—A. Yes.

Q. Well, is that creating a deposit, or is it not merely a restoration of invested savings to liquid form? I had my security; it was not in liquid form. It originally must have been in liquid form or I could not have purchased it. I purchased the security. Now I need cash; I take it to the bank, and was I not restoring it to its liquid form?—A. Well, I suppose it can be said that that is the process in the particular case you mention; but still I really think that it would be better, if the thing which was referred to as a creation of deposits could be understood in another form; that is by insistence on the fact that it is a creation of liabilities so far as the banks are concerned.

Mr. LANDERYOU: And assets as well.

Mr. TOWERS: Everyone has a different method of approach to this subject.

By Mr. Macdonald:

Q. It is a liability of the bank?—A. It is a liability of the bank, and as I say that process can be followed by anyone who can command any degree of credit at all. If you go to a grocer and acquire, say, an asset, in the form of 100 pounds of sugar, and the grocer is willing to trust you for that $6, you have a credit.

Q. I have to give him some security, maybe my personal security?—A. Yes.

Q. Or it may be something else?—A. Yes.

Q. Is not that just a change?—A. I suppose one can phrase it that way, although I do not quite follow the implication there.

Mr. TUCKER: You are suggesting that the bank is monetizing your credit.

Mr. LANDERYOU: Monetizing your real credit.

Mr. MACDONALD: If I deposit a bond which I have purchased with cash and I leave that bond with the bank, I say that it is just restoring that bond to liquid form.

Mr. TUCKER: Suppose you were to take the example you gave a moment ago. What they are doing is, they are monetizing what they consider to be your credit.

Mr. MACDONALD: I must have something material behind me or else they won't give me the money. They must be satisfied that I have got something that they can get possession of if I do not make payment.

Mr. QUELCH: No. The banks have given money on personal notes, which had nothing but the integrity of the individual behind it.

The CHAIRMAN: That is what Mr. Macdonald has said, personal security.

Mr. QUELCH: Integrity. He said providing they can get hold of some security that he had. They may give you a loan on your ability to produce wealth in the future.

Mr. MACDONALD: The bank must be satisfied that I have something.

The CHAIRMAN: They must be satisfied that you will pay the bank.

Mr. MACDONALD: Yes.

Mr. LANDERYOU: Do you believe the banks can create money out of thin air?

Mr. MACDONALD: If they can, that is what I am endeavouring to find out. I am here, and I think the committee is here, to find out whether it is possible for the banks to create money.

Mr. LANDERYOU: They have done it for years and years. That should be a matter of common knowledge at this time.

Mr. TOWERS: You would not object to saying they create liabilities?

Mr. LANDERYOU: As long as you include assets at the same time.

Mr. TOWERS: In acquiring an asset the bank also acquires a liability.

Mr. LANDERYOU: I will admit that. They create a liability at the same time that they create a revenue producing asset for themselves.

Mr. QUELCH: And they make a profit on the transaction.

Mr. LANDERYOU: They make a profit on the transaction.

The CHAIRMAN: Order; not all at once, please.

By Mr. Macdonald:

Q. Following up my reasoning and statement, I am of the opinion, and I should like to know whether the governor of the bank agrees with me, that the bank does not really create anything, it rather converts, as I said before, my property into liquid form, and it holds it to my order.

Mr. LANDERYOU: What is the liquid?

Mr. TOWERS: It has that effect, yes, which I think is very much the same as putting it the other way.

By Mr. Macdonald:

Q. Let us get down to the question you mentioned of creating money out of thin air or in other ways—fountain pen money that the bank can create. I should like to have this cleared up beyond all doubt, as I think a lot of people have been deceived by it. If it is a simple matter for the bank to create money and call it out of thin air or by use of a fountain pen, I should like to have some of it.

Mr. LANDERYOU: You cannot get it.

Mr. MACDONALD: Not for myself, personally, but for the city of Brantford, for instance. There are in that city today 4,241 people on relief. Someone has said that these people do not want to work. I resent that statement; I think it is an effrontery. I know the people in Brantford who are on relief want work; are anxious and ready to work, and I believe that the other 100,000 or more who are also on relief are on the whole anxious to work. But I will speak about the 4,241 people in the city of Brantford who are on relief. They are very deserving people. They are living on a very small amount. I do not see how they subsist. I do not see how they got along on the small amount that is given them. For instance, five people living on relief in the city of Brantford get $32.10 a month. That is a little less than $1 a day. In addition to that they get a shelter allowance, but $1 a day to keep five people, including food, fuel and clothing, is not very much. As I say, I do not see how they exist at all. I should like to know if there is any way in which the banks can create money, call it out of thin air or by the use of a fountain pen, and wipe out poverty. I should like to know how it can be done. If it can be done I should like it done so that these people in Brantford who are on relief, and others, can get some of this money.

Mr. TOWERS: In spite of all that has been said I still think there is a lurking thought, when people say that banks can create money, that that means they can create money for themselves. In fact, they can create liabilities, and those liabilities being bank deposits which are readily acceptable, so long as the institutions are thought to be solvent, the net result is that they create money for other people. They cannot create it for themselves. In the process of banking, they acquire assets in the form of loans or investments and, at the same time, assume liabilities to pay such and such an amount in deposits. Now, the benefit to the banking system of that process depends on the difference between the earnings which they receive on the assets and the costs they incur in the form of interest and operating charges in connection with deposits. That is and always has been the business of banking and it is the way in which the public obtain the medium of exchange which they want and need to do the country's business.

The banks have it in their power to decide whether or not they will conduct such a banking operation in any individual case. It is the central authorities in most countries who determine the sum total of what can be done along those lines, and presumably base their determination on what they conceive to be the proper amount of medium of exchange for the country as a whole, remembering, of course, that that medium of exchange is not wealth, it is just what the words used to describe it indicate.

Mr. LANDERYOU: Could you deal with this proposition of Mr. Macdonald's—

The CHAIRMAN: Order, please, let Mr. Macdonald continue his examination.

By Mr. Macdonald:

Q. Could the banks by some fountain pen method create enough money to wipe out poverty?—A. Money will not wipe out poverty because it is not wealth. And in any event, the banks create nothing for themselves in that respect. They create liabilities so far as the banks are concerned. The deposits are in the hands of the respective owners thereof.

Mr. QUELCH: Do you not think it is true—

The CHAIRMAN: Order.

By Mr. Macdonald:

Q. They create liabilities and those liabilities must be wiped out.—A. Those liabilities they must be prepared to pay, or, so long as they have those liabilities, they must see to it that they have an appropriate amount of assets under administration so that there are assets to respond to their liabilities.

Q. I shall leave it at this: You know of no method whereby I can obtain sufficient money from the bank by a fountain pen method or out of thin air, or any other method, to put these people who are on relief in funds so that they will have a substantial quantity of the medium of exchange?—A. No method of that kind, no.

Mr. QUELCH: That is hardly a fair question. Is it not true—

The CHAIRMAN: Order, please.

Mr. QUELCH: Is it not true that money can be obtained by that method in order to stimulate production thereby wiping out poverty? I do not think that is a fair way of putting the question.

Mr. TOWERS: If it is desired to stimulate production through the investment of capital, that capital, of course, can be obtained in various ways. One way is by borrowing the savings of the people.

Mr. QUELCH: Or by this method?

Mr. TOWERS: Or by this method, to the extent that it does seem desirable to increase the medium of exchange. But I should say that the decision as to

which method would be employed is one which should be determined by the thought, is the medium of exchange sufficient in volume or not? If it is sufficient, then any money required for capital investment should come from the savings of the people.

Mr. QUELCH: In active circulation? You cannot force people to invest. If they will not invest, then the government should do it.

Mr. TOWERS: You mean that the government in that case wanting money for capital development —

Mr. QUELCH: Yes.

Mr. TOWERS: —finds that the people of the country will not lend it the money; in other words, they have no confidence in their government?

Mr. QUELCH: No, I am not prepared to say that.

Mr. TOWERS: That is the answer. They will do it if they have confidence in the government, and if you assume the people have not got sufficient confidence you have a pretty serious situation.

Mr. TUCKER: But you would have to let the civilization which you have built up fall. Let us follow this along—

The CHAIRMAN: Just a minute, please. Mr. Landeryou rose a few moments ago to ask a question and I am going to ask Mr. Macdonald, as a special favour to the chairman, to allow Mr. Landeryou to ask his question. But just one question.

By Mr. Landeryou:

Q. At the present time, Mr. Towers, is it not correct that the banks are creating by the use of their fountain pens money with which municipalities, provincial governments and this federal government contribute to relief?—A. I would say that over the period of the last four years the monetary policy of the central bank has resulted in the banks, the chartered banks, acquiring a good many additional government securities, and that that has increased deposits. I would not say that is the only way in which governments could have obtained—

Q. No, but that has been done.—A. For the reason that it has been considered desirable to increase the medium of exchange. Between December 1936 and December, 1938, speaking broadly, that was not done.

Mr. QUELCH: Yes, but coming back to your answer, is that because—

The CHAIRMAN: Order. Mr. Landeryou is asking a question. Mr. Quelch, please let Mr. Landeryou ask his question.

By Mr. Landeryou:

Q. I am just trying to get an answer to the question that was asked by Mr. Macdonald. As I understand it the question was whether banks can create money by the simple expedient of using a fountain pen; if that is so, why cannot unemployment be financed in that way? Now, is it not true that banks have created through pen and ink entries in their books credit that has been used by municipalities, provincial governments and federal government to pay the cost of relief? A simple answer "Yes" or "No", I think, would cover it.—A. Oh no. First of all, while it is perhaps a psychological question, I do not think that the fountain pen reference is a very satisfactory one. After all, we are dealing with a serious subject on which I do not suppose anyone wants people to obtain wrong impressions. I suppose, with due respect to the King's Printer, I could refer to all the laws of this country as pen and ink laws, but if I went out and tried to break them and said in court, "It was only a pen and ink matter," I would not get very far with the judge. These are real transactions which take place in banks. These are serious liabilities which they assume. The business of banking is to loan and invest within the

[Mr. Graham Ford Towers.]

limits permitted by their reserves. It has so happened that because of a central bank policy, with which the chartered banks had nothing to do, the additional cash with which they have been supplied in the last four years has led them into purchasing additional government bonds. Now, if we had not done that, you would have found, I assume, that the expenditures of the governments for relief and other purposes would have been just the same, but that not one dollar of those expenditures would have come from additional bank credit.

By Mr. Macdonald:

Q. I have just one more question I should like to discuss briefly. I had not intended to go into this matter but on account of the reference to the tariff yesterday I thought it should be mentioned today. It is a question which has come up from time to time, the claim that the west has been exploited by the east. I think that is an unfortunate feeling that is abroad in certain sections of Canada, particularly in the west, that the east has exploited the west.

Mr. LANDERYOU: Hear, hear.

Mr. MACDONALD: Some members of the committee say "Hear, hear," which shows that they feel that way but may or may not be prejudiced. I think we should go into the question with an open mind and not decide before we discuss it that the west has been exploited by the east.

Mr. LANDERYOU: Well, by the east——

The CHAIRMAN: Order, please.

Mr. MACDONALD: Or by anyone else. I think we should consider the matter and endeavour to get the true facts and not go into it with a closed mind and say that a certain thing has been done and is still being done.

Yesterday the tariff was mentioned and it was said that there was a very high tariff against manufactured goods, and the impression was left that there was no tariff against any other goods. I should like to put on record a statement of the tariffs on farm products.

Mr. DEACHMAN: Not much good.

Mr. TUCKER: Do you suggest the high tariff on wheat helped raise the price of wheat?

Mr. MACDONALD: Helped raise it?

Mr. TUCKER: Yes.

Mr. MACDONALD: Yes.

Mr. TUCKER: If that is your idea then your opinion in regard to the matter would not be worth much to the average farmer.

Mr. MACDONALD: It may not be worth much to you and some other members, but if it is a fact then it has to be—

Mr. TUCKER: Where has it raised the price?

The CHAIRMAN: Order. Please allow Mr. Macdonald to continue.

Mr. MACDONALD: This tariff rate is in reference to the United States, and I do not think the statement can be denied.

On live cattle, there is a duty of two cents a pound.

On sheep, there is a duty of $2 a head.

On hogs the duty is $1\frac{1}{4}$ cents a pound; on fresh beef, 6 cents a pound; on lambs, 6 cents a pound; on canned meats, 30 per cent (canned hams less 20 per cent under the Polish agreement). On baby chicks there is a duty of 4 cents each; on bacon and hams, $1\frac{1}{4}$ cents a pound; on beef in the brine, 3 cents a pound; on lard, $1\frac{3}{4}$ cents a pound; on tallow, $17\frac{1}{2}$ per cent; on eggs in the shell, 5 cents a dozen; on cheese, 7 cents a pound; on butter, 12 cents a pound; on hops, 10 cents a pound; on powdered milk, 5 cents a pound. I would also

remind members of the committee that there is an absolute prohibition of the sale or manufacture of margarine in this country which is also a considerable protection, I would say, to makers of butter.

Mr. TUCKER: Has that raised prices any? That is the point.

The CHAIRMAN: Order.

Mr. MACDONALD: If you are discussing the raising of prices, we will go into the whole question of tariffs, and whether tariffs raise prices or not.

Mr. TUCKER: Has that raised prices?

Mr. MACDONALD: As I mentioned a moment ago, in my opinion, tariffs do not necessarily raise prices.

Mr. DEACHMAN: Not when you—

The CHAIRMAN: Order, please.

Mr. MACDONALD: You say that the price of butter is not raised on account of the tariff. There is one instance where you have proved my argument for me. If you take into account the percentages—

Mr. TUCKER: Surely you are not advancing this argument seriously.

The CHAIRMAN: Order, please.

Mr. MACDONALD: If you take into account percentages—I have the price of butter on May 22nd; creamery butter solids, No. 1, sold at 20½ cents a pound —when you put on a duty of 12 cents or take a duty of 12 cents on that butter, it brings your tariff up to about 60 per cent.

Mr. DEACHMAN: I can give you higher ones than that.

The CHAIRMAN: Order.

Mr. MACDONALD: Then we will take cheese. Cheese, new large, on the same date, was 10 cents a pound; and the duty on cheese is 7 cents, which would put the duty on cheese up to 70 per cent.

Mr. LANDERYOU: What is the surplus of cheese in Canada to-day?

Mr. MACDONALD: I am not discussing the surplus. I am just pointing out to the members of the committee that it is not only manufactured products that have duties, that have tariffs, and have, if you want to call it that, tariff protection. But there is this long list of farm products which also has tariff protection. Added to that, I would remind members of the committee that there is a guaranteed price for wheat.

Mr. TUCKER: But that guaranteed price for wheat—

The CHAIRMAN: Order, please.

Mr. MACDONALD: Which at the present time is considerably above the market value.

Mr. DEACHMAN: But that is one year. That is only a year, and the tariff has been stealing from us for sixty years.

Mr. MACDONALD: It was one year this year and one year last.

Mr. DEACHMAN: That is two years out of sixty.

Mr. MACDONALD: And it may be one year next year.

Mr. DEACHMAN: And it may be after that.

Mr. MACDONALD: If we are going into this question with an open mind—

Mr. DEACHMAN: That is what we are doing.

Mr. MACDONALD: We must remember that there are these duties on those farm products.

Mr. TUCKER: But they work differently as compared to one thing and another.

The CHAIRMAN: Order.

Mr. TUCKER: There is no use comparing them without considering how they work.

Mr. MACDONALD: You can say that about any tariff. Whenever a tariff is mentioned, it is suggested that when it gets into some other department than the Department of Finance, it works a little differently.

Mr. DEACHMAN: You have the very same thing. Your raw materials for your implements are duty free.

Mr. MACDONALD: Then we must put both the duties on farm products and the duties on manufactured goods on the same basis. They all have duties.

Mr. TUCKER: All right. Let us just take that.

Mr. MACDONALD: You have added to that, as I have said, prohibition, actual prohibition—

Mr. DEACHMAN: Never.

Mr. MACDONALD: On a product which is in competition with butter.

Mr. TUCKER: Yes, and what is the effect?

Mr. MACDONALD: Also, as I have said before, you get a guaranteed price for wheat. Now it is suggested that the duty should come off. Some members—I do not know whether there are any in this committee; I doubt it—have suggested that the duties should come off all manufactured goods. If they came off all manufactured goods, they would necessarily, I submit, Mr. Chairman, have to come off all farm products.

Mr. DEACHMAN: Welcome.

Mr. TUCKER: Welcome.

The CHAIRMAN: Order, order.

Mr. TUCKER: We have been asking for that for the last twenty years. Remove all tariffs.

The CHAIRMAN: Restrain your enthusiasm, gentlemen, and let Mr. Macdonald continue, please.

Mr. MACDONALD: If they come off all farm products, then necessarily the fixed price on wheat would have to come off.

Mr. DEACHMAN: Hear, hear.

Mr. TUCKER: Get off our backs, and we will not ask for any favours.

Mr. MACDONALD: And all subsidies in any way to wheat growers would have to come off.

Mr. TUCKER: Hear, hear.

Mr. MACDONALD: They would have to come off.

Mr. TUCKER: Get off our backs and we do not want any subsidies.

Mr. DEACHMAN: Do not forget the coal fellows.

The CHAIRMAN: Order, order.

Mr. JAQUES: May I make a statement?

Mr. MACDONALD: I wish the members of the committee would not get so enthusiastic.

Mr. JAQUES: I have not said anything yet.

The CHAIRMAN: I know you have not. You are always good. But let Mr. Macdonald finish.

Mr. JAQUES: When he is through, I am going to make a statement.

The CHAIRMAN: When Mr. Macdonald finishes I think, with the unanimous approval of the committee, Mr. Jaques will have the floor. Go on, Mr. Macdonald.

Mr. LANDERYOU: He is very popular with the committee just now; let him go ahead.

Mr. Macdonald: I might say that I have no objection to all the members of the committee speaking at once after I am through.

Mr. Deachman: We are all in accord.

Mr. Macdonald: But my fear is that if you take the duties off all farm products, off butter and cheese and cattle and everything else I have mentioned —I have forgotten, for instance, vegetables. I thank one member of the committee for reminding me of that.

Mr. Kinley: You forgot sugar beets.

An Hon. Member: And fish.

Mr. Macdonald: There are also sugar beets and fish. But I am dealing more with farm products. If the duties were taken off all farm products, if there were no guaranteed price given for wheat, if there were no other subsidies to the wheat growers and no other protection or guarantees of any kind, then it might be reasonable for members of the committee to argue that the duties should be taken off all manufactured goods. But my fear is that if all the duties were taken off farm products, if all the assistance were taken away from the wheat growers, the men who make the farm implements in Brantford would be unemployed because there would be no farmers left and no farm implements could be sold.

Mr. Tucker: The west has been fighting to get the tariffs off for the last twenty years; and they have said right along if they get the tariffs off, they do not want any favours.

The Chairman: Order, order.

Mr. Macdonald: There is another matter under the heading which I mentioned, the so-called exploitation of one section of this country by another. I wonder, Mr. Chairman, if it would be possible to get some figures—to get the present value of prairie agriculture, its growth by years, decade by decade, and the number of decades. We are now living in 1939. If you go back four or five decades and come up to the present time, you will find that the growth, the increase in the value of the agricultural country of the prairies has been phenomenal.

Mr. Quelch: It has gone back in the last decade, though.

Mr. Macdonald: There may have been a temporary set-back. But if you take it by decades, you will find that it has been the surprise of the whole world. It is not so long ago when that country was thought to be valueless.

Mr. Quelch: We have ruined a lot of good prairie.

Mr. Macdonald: It has gone up.

Mr. Kinley: I do not see how you can justify this discussion, Mr. Chairman, except on the grounds that money is the root of all evil.

The Chairman: Order.

Mr. Macdonald: It has gone up very greatly.

Mr. Quelch: We have ruined an awful lot of good prairie.

Mr. Macdonald: I should like to get the figures, if possible, comparing the value of the western prairies with the value of the country elsewhere in the world, bearing in mind that in every other country in the world it has taken generations and generations to bring it up to its present value, whereas in western Canada it has been done in a comparatively few decades.

Mr. Jaques: May I make a statement?

The Chairman: You follow Mr. Macdonald.

Mr. Macdonald: I will not be long. I thought I was very generous in allowing interruptions at the beginning; and if I may be allowed to conclude, it

will take only a few minutes. I would remind members of the committee that western Canada has been developed to a very large extent by credit advanced from where? To a very large extent from eastern Canada.

Mr. DEACHMAN: At eight per cent.

Mr. QUELCH: Ten.

Mr. DONNELLY: Twelve or thirteen.

The CHAIRMAN: Order.

Mr. KINLEY: But they repudiated the interest.

Mr. TUCKER: They have repudiated after they have paid it off two or three times.

Mr. MACDONALD: I am not talking about interest rate. At the present time I am not discussing the interest rate or whether or not the debts have been repudiated—whether the debts in the east have been repudiated by the west. I think we should put that aside for the time being. I am not saying whether they have been or whether they have not been. I am merely pointing out that the west was developed to a very large extent by credit advanced by eastern Canada —either from the state or from loan companies in eastern Canada. When we talk about loan companies in eastern Canada, we do not necessarily talk about large corporations. We must consider that those loan companies have a great many shareholders. So that the credit that was advanced by the loan companies was advanced by shareholders of the loan companies.

Mr. KINLEY: May I ask a question, Mr. Macdonald?

Mr. MACDONALD: Yes.

Mr. KINLEY: Who is benefited, the borrower or the lender, when you borrow money?

Mr. JAQUES: Neither.

Mr. TUCKER: Neither a borrower nor a lender be.

Mr. KINLEY: I do not think there is any favour to the west in lending money on which they paid interest.

Mr. MACDONALD: I would say that when you loan money, you expect to have it paid back.

An Hon. MEMBER: You hope to have it paid back.

Mr. MACDONALD: Yes; you hope to have it paid back.

Mr. KINLEY: You do it for your own benefit, not for the benefit of the man who is borrowing it.

Mr. MACDONALD: You loan it for that purpose.

Mr. KINLEY: A man loans money to make money.

Mr. MACDONALD: Unless you can get someone who is prepared to loan it to you and take that risk, you cannot get it. When you have a country like western Canada, someone had to have confidence in that country or they would not have loaned anything to it. True, they expected it to be a profitable transaction; but I do not think it should ever be forgotten that someone in eastern Canada had confidence in western Canada and they were prepared to loan their money to western Canada in order to develop it.

Mr. LANDERYOU: There are millions of dollars in western Canada that have come from outside of the country.

Mr. MACDONALD: True, as Mr. Landeryou has said, and probably as Mr. Jaques was going to say, there is certain capital which did come in from outside of Canada, from other countries; but to a large extent it came from eastern Canada. Someone has said, "What about interest rates?" When you are considering this whole question, I would ask you to compare the interest rates in

other countries of immigration. Take any other country of immigration and compare the interest rates in those countries with the interest rate in western Canada.

Mr. TUCKER: Did the United States loan to us at lower rates than they loaned to South American countries because they liked us?

Mr. MACDONALD: They would not do that—not necessarily because they liked you. It is nearer at home and they could follow their investments easier in this country.

Mr. TUCKER: If we could get money at the same rate of interest—

The CHAIRMAN: Order, please.

Mr. MACDONALD: I think it is a most unfortunate thing for the people in any section of this country to have the idea solidly within their minds and refuse to have it displaced, that one part of the country is getting an unfair advantage over the other part of the country.

Mr. TUCKER: Well, it is; that is all.

Mr. MACDONALD: I feel that if the whole thing were considered, and I feel that if the farmer would consider the benefits he receives both by guaranteed prices and by subsidies of one kind and another and by tariff protection, he would not think the manufacturer is getting a very great advantage over him. And also I feel that if the west would consider and think of what the east has been prepared to do and are prepared to do now that the feeling that one part of the country is trying to exploit the other would vanish, and I trust it will. Thank you, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Macdonald.

Mr. JAQUES: I would like to remark first that I have lived in the west all my life and I have no feeling against the east, not the slightest, and if the east is exploiting the west I don't believe the mass of the people in the east are any better off for it, in fact, I would rather take my chances in the west.

This country though, has all its finances concentrated in the east, and to that extent, we refer to the east, simply because it is the headquarters of finance—I do not mean the Bank of Canada, but what we call finance.

Now, I want to say a word about tariffs, two or three words about tariffs. I know that Liberals are free-traders, but there is not a Liberal in the country who if he had the power would put in free trade. And now, tariffs are only tentative. We have them and there they are, and we shall continue to have them in spite of what we believe to the contrary; but to my mind they are only tenable from one point of view, because, why is it we don't mind, at least we are anxious to export as much of our wealth as we can but we hate to bring any wealth in. The only intelligible explanation of that situation is there is a shortage of purchasing power in the country. Now, if you can get rid of as much wealth—that is, goods—as you can then it does raise the purchasing power for the goods which are left; and tariffs are not a cause, they are a consequence of that fact. All countries are the same. All countries want what they call a favourable balance of trade. Now, by any real reasoning it is untenable—the balance of trade, how can you say that if the country gets rid of more of its real wealth than it brings back—how can you say that is a favourable balance of trade, that is unfavourable; but it is favourable to the economic conditions in the country because as I say if you can get rid of more goods than you bring in, than the goods that you bought, then you shift up the price of things and therefore the money which is left in the country is more capable of distributing the goods that are left; and that is, if I may say so, the social credit viewpoint on tariffs and the necessity for them. If we had a sufficiency of purchasing power to buy, to distribute everything we could make then there would be no reason to fear even steps such as free trade, we could then have very nearly a free trade.

[Mr. Graham Ford Towers.]

The CHAIRMAN: Gentlemen, is it your wish to meet Monday morning? I understand we may have the mortgage bank bill before us at that time.

Mr. TUCKER: It is referred to us now.

The CHAIRMAN: They may have it ready Monday morning. I was asked if we would be ready Monday morning because of the desirability of having representatives of those who are interested present.

Mr. KINLEY: Will you be able to have those people here by Monday morning?

The CHAIRMAN: I think they will be able to come. I think we should adjourn until 11.15 Monday morning.

Mr. TUCKER: Why can't we meet to-morrow and discuss the sections of the bill that we can discuss prior to hearing the representations?

The CHAIRMAN: There are many members of the committee who went away on the understanding that we would not meet to-morrow because parliament does not meet to-morrow.

Mr. DEACHMAN: I would like to make a suggestion. The chairman has sat here day after day very patiently. I have known him for a long time, and I never in my life knew him to sit so long and so quietly without having some idea of his own, and I am going to suggest that before this section of our proceedings closes that we might give the chairman a little space and put some competent person in the chair; and then, of course, he would be subject to questioning on this thing, and we would have a rather interesting hearing. I am serious about this, Mr. Chairman, and I would like to see it done.

The CHAIRMAN: If there is time, gentlemen, there is nothing I would more like to do than to express my views. Put someone in my place; but if I do that, however, I would like to proceed without interruption and then stand examination.

Mr. TUCKER: Yes, that is the right way.

Mr. TOWERS: Before the committee adjourns I have here replies to certain questions asked by Mr. Cleaver and Mr. Deachman; is it the pleasure of the committee that these be placed on the record?

Some Hon. MEMBERS: Agreed.

REPLY TO MR. CLEAVER—THE EFFECT OF SECURITY PURCHASES BY THE BANK OF CANADA

Suppose the Bank of Canada decides upon a policy of expanding the chartered banks' cash by, say, $10,000. Suppose also that its gold ratio is already at the legal minimum of 25 per cent. The Bank will therefore have to buy $2,500 of gold from, say, the Gold Mining Company. Suppose also that it buys $7,500 of, say, Dominion of Canada 3's of 1955 from John Smith at par. In each case it pays in Bank of Canada notes. The Bank of Canada's balance sheet (which as given here is purely hypothetical as to figures and condensed in form) will change as follows:—

1. BEFORE

Assets		*Liabilities*	
Gold and Foreign Exchange	$ 3,000	Chartered Bank Deposits	$ 6,000
Securities	11,000	Notes—in Hands of Banks	1,500
		in Hands of Public	4,500
Other Assets	1,000	Capital and Other Liabilities	3,000
	$15,000		$15,000

2. After

Assets		Liabilities	
Gold and Foreign Exchange	$ 5,500	Chartered Bank Deposits	$ 6,000
(Previous 3,000+2,500 purchased from Gold Mining Company)		Notes—in Hands of Banks	
Securities	18,500	in Hands of Public	16,000
(Previous 11,000+7,500 purchased from John Smith)		(Previous 6,000+10,000 issued to Gold Mining Company and John Smith)	
Other Assets	1,000	Capital and Other Liabilities	3,000
	$25,000		$25,000

There are now $10,000 new Bank of Canada notes in existence. To the extent that some of the notes are needed for the purpose of making hand to hand payments, or to the extent that the Gold Mining Company or John Smith decide for other reasons not to deposit, the $10,000 worth of notes will not come back to the chartered banks. They will be in active circulation or hoards. Let us assume, however, that John Smith does deposit his $7,500 in a savings account and that the Gold Mining Company deposits its $2,500 worth of notes in a current account. The liability side of the Bank of Canada's balance sheet (No. 2 above) has now been determined in the following form:—

Chartered Bank Deposits	$ 6,000
Notes—in Hands of Banks	11,500
in Hands of Public	4,500
Capital and Other Liabilities	3,000
	$25,000

It is likely that the chartered banks would, for convenience of transfer, exchange some of their Bank of Canada notes for an increase in their deposits with the Bank of Canada. For present purposes it does not matter whether this happens or not. The important point is that their cash reserves have increased by $10,000.

For convenience of illustration we shall now assume that there is only one chartered bank operating in Canada. The change in its balance sheet (hypothetical as to figures and condensed as to form) are shown below:—

3. Before

Assets		Liabilities	
Cash	$ 7,500	Deposits	$75,000
Loans and Investments	70,000	Capital	5,000
Other Assets	7,500	Other Liabilities	5,000
	$85,000		$85,000

4. After

Assets		Liabilities	
Cash	$17,500	Deposits	$85,000
(Previous 7,500+10,000 deposited by Gold Mining Company and John Smith)		(Previous 75,000+10,000 from Gold Mining Company and John Smith)	
Loans and Investments	70,000	Capital	5,000
Other Assets	7,500	Other Liabilities	5,000
	$95,000		$95,000

As the balance sheets show the Chartered Bank's cash ratio has risen from the conventional 10 per cent (7,500:75,000) in No. 3 to 20·6 per cent (17,500:85,000) in No. 4.

The changes in earnings which have taken place up to this point are as follows:—

1. John Smith who had bonds giving him an income of $225 per year has, for reasons of his own, exchanged them for the more liquid form of a savings deposit, giving him only $112.50 per year. He has lost $112.50 a year in income.

[Mr. Graham Ford Towers.]

2. The Bank of Canada, on the assumption that it had decided upon an expansionist policy, i.e. on the assumption that it took no action to offset this purchase by selling other bonds, would have increased its income by the interest on the $7,500 of bonds, i.e. by $225 a year.
3. The Chartered Bank would have added nothing to its earning assets, while its savings deposits would have increased by $7,500. Its net income would therefore have been reduced by the amount of interest it had to pay on the deposits, i.e. $112.50 a year, plus whatever net additional costs it might incur in servicing its increased deposits.

Summary

Loss of income to John Smith	$112.50 a year
Additional expense to Chartered Bank, at least	$112.50 a year
Additional earnings of Bank of Canada	$225.00 a year

The Chartered Bank has now an unnecessarily large amount of cash in relation to its deposit liabilities and, on the other hand, has suffered a reduction in earnings. After setting aside $1,000 of the cash which it has just received as a reserve against its new $10,000 of deposits it has every incentive to look about for loans which it can make or securities which it can buy with the remaining $9,000 cash. Assuming that it has disbursed the whole $9,000 in cash in this way its balance sheet would be as follows:—

5

Assets		Liabilities	
Cash (Previous $17,500 — $9,000 paid to borrowers or sellers of securities)	$ 8,500	Deposits	$85,000
Loans and Investments (Previous $70,000 + $9,000 of new loans made or securities purchased)	79,000	Capital	5,000
Other Assets	7,500	Other Liabilities	5,000
	$95,000		$95,000

If we assume that the holders of the $9,000 of notes just paid out do not need them for active circulation ad have confidence in the Chartered Bank they will deposit the notes with the Chartered Bank and increase its cash accordingly. Its balance sheet will now be: —

6

Assets		Liabilities	
Cash (Previous $8,500 + $9,000 from new deposits)	$ 17,500	Deposits (Previous $85,000 + $9,000 of notes deposited)	$ 94,000
Loans and Investments	79,000	Capital	5,000
Other Assets	7,500	Other Liabilities	5,000
	$104,000		$104,000

The first stage in the Chartered Bank's attempt to repair a loss in earnings through expansion on the basis of an abnormally high cash ratio may be summarized in two steps thus:—

	Step 1	*Step 2*		*Net Result*
Cash	— 9,000	+ 9,000	=	no change
Loans and Investments	+ 9,000	no change	=	+ 9,000
Deposits	no change	+ 9,000	=	+ 9,000

The Chartered Bank has the same cash as it started with (though this is only possible because no additional notes are needed for active circulation and because the people who got the notes have confidence in the bank) but has $9,000 additional loans and investments and $9,000 additional deposits.

Its balance sheet (No. 6) still shows a cash ratio much higher than the normal 10 per cent. It would presumably feel safe if it had only $9,400 in cash. It then takes the other $8,100 of the total $17,500 and uses it to make loans or buy securities. Again we assume there is no increase in active circulation and no hoarding and so again the cash comes back to the Chartered Bank, increasing its deposits by another $8,100. They will now total $102,100, loans and investments will be $87,100, and the other items in the balance sheet will be the same as in No. 6.

A surplus of cash still exists, to the extent of $7,290. The same cycle of operations will be repeated many times, each expansion of loans and investments on the asset side and deposits on the liability side being 9/10 of the last, and each cycle depending for its completion upon the willingness of the public to redeposit with the Chartered Bank the cash that has been paid out to it.

This tendency to invest surplus cash in loans or securities will continue until deposits have risen to $175,000, i.e., until the customary 10 per cent ratio has been restored, when there will be no more surplus cash. The Chartered Bank's balance sheet will then be as follows:—

Assets		*Liabilities*	
Cash	$ 17,500	Deposits	$175,000
Loans and Investments	160,000	Capital	5,000
Other Assets	7,500	Other Liabilities	5,000
	$185,000		$185,000

The sequence of events would be only slightly different if the Bank of Canada originally purchased its $7,500 worth of securities from the Chartered Bank rather than from John Smith.

In the first instance there would be no change in the Chartered Bank's deposits; it would simply have exchanged interest-bearing securities for non-interest-bearing cash. It would lose $225 a year in earnings and the Bank of Canada would gain by a like amount. Its balance sheet would have changed as follows:

Before

Assets		*Liabilities*	
Cash	$ 7,500	Deposits	$75,000
Loans and Investments	70,000	Capital	5,000
Other Assets	7,500	Other Liabilities	5,000
	$85,000		$85,000

After

Assets		*Liabilities*	
Cash (previous 7,500 + 7,500 bonds sold to Bank of Canada + 2,500 deposited by Gold Mining Company)	$17,500	Deposits (previous 75,000 + 2,500 deposited by Gold Mining Company)	$77,500
Loans and Investments (previous 75,000 — bonds sold to Bank of Canada)	62,500	Capital	5,000
Other Assets	7,500	Other Liabilities	5,000
	$87,500		$87,500

In the second stage there would exist the basis for a $97,500 expansion of loans or securities, and thus deposits, rather than one of $90,000 as in the example previously given. The same considerations would apply and the Chartered Bank's final balance sheet would be the same.

[Mr. Graham Ford Towers.]

The net result of the chain of operations which began with the Bank of Canada's open market purchase of $2,500 of gold and $7,500 of securities has therefore been to increase the Chartered Bank's deposits (and thus the volume of money in the hands of the public) by $100,000. But this did not take place immediately, in a single step. A whole series of transactions was necessary and the process of expansion could have been checked at any time through any one of the following developments—a need for more notes for active circulation, a lack of desire to deposit, or a dearth of suitable loans or investments.

When the banking system includes not one but ten banks the process of expansion becomes still less automatic so far as any individual bank is concerned. If none of the surplus cash which it pays out for loans and investments at a given stage comes back to that bank then or later, its share in the expansion is finished. The expansion of assets and deposits of the system as a whole tends to go on, of course, so long as there is any bank in the system with a cash ratio perceptibly above normal. But the ability of any individual bank to gain its share of the expansion depends on its ability to attract its share of the public's deposits of surplus cash as it is paid out in each cycle for the purpose of making new loans or purchasing securities.

Whether from a net profits point of view the Chartered Bank is better or worse off than it was before the operation began depends upon how the increase in its earning assets is distributed between loans, on which it earns, say, 5 per cent, and securities, on which it earns, say 2 per cent; and also upon the increase in its overhead and operating costs resulting from the increased volume of deposits. On the basis of its whole business, a rough guess at the relation of these costs to its deposits would be approximately 2 per cent a year. But if any leeway in the matter of staff or premises had existed before, the addition to costs would probably be less than 2 per cent a year on the new deposits, especially if the new deposits are relatively inactive. The increased earnings on the Bank's new assets would range between $1,800 (all new securities) and $4,500 (all new loans). The increased expenses would be, say, $1,000 interest on deposits (an average of 1 per cent on 100,000) and probably something less than $2,000 in overhead and operating expenses.

The increased volume of deposits may be needed as medium of exchange for an increased volume of business. In that case larger average holdings of cash are one of the necessary expenses to business of an increased turnover.

Active use of the new deposits while the volume of business was not increasing would mean an inflationary rise in prices. The costs of a development of that sort in the way of a redistribution of income and the ownership of assets are well-known.

If, however, as under the conditions of the past few years, the new deposits remain relatively idle, or if, rather, their existence slows down the average rate of turnover of deposits as a whole, this will mean that the average cash holdings of individuals and businesses are greater than required. Those who can will attempt to exchange their deposits for some asset which is slightly less liquid but which gives a somewhat higher return e.g. a government bond. This competition for high-grade liquid assets will drive down the return obtainable from them and the quest for a little higher earnings at the expense of a little less liquidity will continue. How far down the scale of liquidity the pressure of easy money will be substantially felt depends on the circumstances, but it does involve some reduction in the rate of return to, and thus sacrifice on the part of, the investor class as a whole.

Replying to a further question by Mr. Cleaver:

Many times during the past two months the belief has been expressed or implied that somehow or other there did exist a "costless" method of government financing, and although I have dealt with this question from many different angles it is so fundamental that I am glad to have an opportunity of going over that ground once more.

Government expenditure necessarily involves a transfer of goods and services from one section of the community to another. Where the expenditure is financed by taxation, or by borrowing savings, the incidence of the sacrifice is plain enough, and in this case the money equivalent of the sacrifices passes formally through the government coffers. The reason for calling the financing of expenditure by issuance of new money "costless" is, apparently, that under that procedure the government has no direct dealings with those who forego goods and services in the course of the transfer which government expenditure entails. But the sacrifices still exist in spite of the fact that their money value does not pass through the government's books in the process of being made, and I should now like to indicate how they do arise. I shall do this in connection with Mr. Cleaver's request to trace the effects which might be expected to follow a decision on the part of the government to finance its expenditure, to the extent of $250 millions in a year, by issues of new money, presumably in the form of non-interest-bearing loans from the Bank of Canada.

As the government spends the $250 millions of new money most of it is normally deposited with the chartered banks and if so increases their cash reserves and deposits accordingly. As I have pointed out in the memorandum which has just been placed on the record, this reduces the banks' earnings by the amount of interest paid on the new deposits and by the increased operating costs incidental to servicing them. The banks have both the necessity for and the means of acquiring additional earning assets by way of making loans or buying securities; and in doing so they would of course add to their deposits and thus to the volume of money in the hands of the public.

I. It might be that the banks would not take advantage of the opportunity to expand their assets and thus restore their earnings. They could certainly be prevented from doing so by government action of one type or another which would have the effect of sterilizing the money which it had spent. This would amount to the government forcing the banks to make it a non-interest-bearing loan. The cost to the banks would necessarily be passed on to the shareholders, the staff, or, through a decreased rate of interest on deposits or increased service charges, to the banks' customers.

If we assume that the money requirements of the country, i.e., its medium of exchange needs, are already being adequately supplied, and if we also assume that the addition of $250 millions to the volume of money in the hands of the public remains idle, then average cash balances of individuals and businesses throughout the country will be larger than necessary. As I mentioned in the previous memorandum those who can will attempt to exchange their deposits for some asset which is slightly less liquid but which gives a somewhat higher return, e.g. a government bond. This competition for high-grade liquid assets will drive down the return obtainable from them and the quest for a little higher earnings at the expense of a little less liquidity will continue. How far down the scale of liquidity the pressure of easy money will be substantially felt depends on the circumstances, but the policy we are discussing does always entail some lowering of interest rates and thus a sacrifice on the part of the investor class as a whole.

II. Suppose alternatively that the banks do utilize the $250 millions increase in their cash reserves to expand their earning assets, and thus their deposits, in the way I have mentioned in the preceding memorandum, by $2,250 millions. If we assume that the additional deposits, now totalling $2,500 millions, remain idle, then the developments which I outlined in the last paragraph will be enormously intensified. For example, the interest return on high grade bonds and all other types of liquid assets would fall sharply, and the rate paid on bank deposits would have to be cut still further or eliminated. To give only a few instances of the possible repercussions of such developments, insurance companies would probably have to raise premiums on new policies and reduce or

[Mr. Graham Ford Towers.]

eliminate dividends on existing ones; in the case of the endowments of educational institutions the reduced return would force those institutions to raise fees or reduce salaries; and the decline in the average rate of return to municipal or government utility sinking funds would necessitate increased tax levies or service charges for debt amortization.

I make no attempt to give an exhaustive account of what might follow the injection into our economy of a very large block of money which remained idle. Perhaps enough has been said to indicate that the government financing out of which this arose would in fact involve substantial sacrifices on the part of at least one large group within the community. In any case, I believe the assumption that the additional $2,500 millions in deposits would remain idle is quite unrealistic. I believe that such an assumption is unrealistic because it would run contrary to what has happened in every other country which has been exposed to such monetary conditions. To argue that a doubling of deposits would not cause apprehension, coupled with a fear in respect to further increases in the future, and would not form the basis for a flight from the currency into commodities, foreign balances or some other form of real wealth, is to assume a lack of sensitivity or perception on the part of the Canadian people which I am sure does not exist.

I do not propose to enlarge upon the disastrous effects of inflation because they are well known to members of the committee. Suffice it to say that in so far as the deposits are used actively they will tend to increase sharply all prices which are free to rise. Many forms of return such as wages, interest and pensions are, however, more or less fixed over short intervals and would lag behind commodity prices. Profits would encroach upon the real income of wage-earners, and organized labour in the United Kingdom and the United States has shown it is well aware of this by declaring vigorously against inflation. Capital values which are fixed in terms of the monetary unit, e.g. bank deposits and insurance policies, to mention only the most obvious examples, would depreciate with respect to goods and services in the same way as fixed incomes. As inflation progressed the shift in the distribution of our national income and the ownership of our real assets would become so great as to distort and disrupt the economy.

I have shown how the financing of $250 millions of government expenditure in Canada by the issuance of new money would inevitably entail sacrifices on the part of certain groups within Canada. It is true that their sacrifice, or its money equivalent, would not be collected by the government before being passed on to those who benefit from the expenditure; it would merely be remitted by another route. But if this is all that the adjective "costless" implies, I find it meaningless. In connection with any government expenditure and the method by which it is financed the vital questions are, "Does this particular transfer of goods and services strengthen the economy as a whole?" and "Is the necessary sacrifice equitably distributed?" Compared with these the question of the manner of transference is unimportant.

Reply to Mr. Deachman:

Yesterday Mr. Deachman asked me to comment upon the following paragraph which appeared in *The Economist* of May 6 under the title of "Full Employment":—

> In the most widely accepted economic doctrines of the moment, the concept of "full employment" is one of peculiar importance. Until "full employment" is reached, any increase in the monetary demand for goods has the effect, not of putting prices up so much as of attracting into employment resources of labour and capital that were previously standing idle. Until "full employment" is reached, so runs the theory, the creation of new demand by expansion of credit cannot result in what

> is commonly called inflation; on the contrary, it diminishes unemployment and, by increasing the national income, gives rise to savings that offset the original creation of credit. But after "full employment" is reached, any further expenditure out of credit expansion or money creation will not increase production or diminish unemployment: it will merely enhance prices and start the revolving spiral of inflation. In the layman's language, "full employment" is the point at which the financing of government deficits by credit expansion ceases to be "sound finance" and becomes "unsound finance."

No one will disagree with the statement contained in the second last sentence, "But after 'full employment' is reached, any further expenditure out of credit expansion or money creation will not increase production or diminish unemployment: it will merely enhance prices and start the revolving spiral of inflation."

In regard to the rest of the paragraph I do not think *The Economist* was passing any comment upon the validity of the theory which it was quoting. What it seemed merely to say, in effect, was, "If this theory is correct it is vitally important for us in Great Britain to determine how close we are to full employment."

In dealing with this question *The Economist* rightly pointed out that consideration of global figures of unemployment was not enough. And examining the number who were available for employment in the individual industries which would have to expand to meet government orders it came to the conclusion that important "bottle-necks" would develop some time before the irreducible minimum of unemployment was reached. In other words, the immobility of labour places important practical limits upon the validity of the theory that deficit spending cannot cause inflation while the over-all figures for unemployment remain large. This limitation does of course apply with special force to Canada where distances increase immobility and where the industrial mobility of its most distressed group, the farmers, is particularly low.

There is another important limiting factor which this article in *The Economist* does not mention but which has been widely discussed in the British press, viz., the nation's foreign resources. If government expenditure necessitates increased imports without producing correspondingly larger exports the currency will sooner or later depreciate, and prices will rise regardless of how much unused capacity may exist within the nation.

Even if a program of public expenditure in Canada was such that it did not call, directly, for any import of foreign materials, it is inconceivable that *none* of the income thus distributed would be spent on foreign goods or services, in that or succeeding cycles of expenditure. Some increase in imports would result no matter how carefully the program was designed to employ exclusively domestic factors.

Mr. Deachman has pointed out that our present active balance of payments allows some leeway for an increase of imports. However, as I mentioned in a memorandum which is on page 561 of the record, this active balance exists only by virtue of very large exports of resources which are not being replaced, and the total volume of imports of consumption goods has, in fact, been well maintained. It is possible to argue that an increase in consumable imports should, as it has done, wait upon a growth in exports of the type which do not deplete our natural resources; and that the proceeds of quasi-capital exports should be *invested* either in imports of capital goods or in repatriation of foreign debt. During the last six years, because openings for profitable private capital development in Canada appeared to be lacking, the result has naturally been the latter of two alternatives.

[Mr. Graham Ford Towers.]

This raises the question which has come up in a more general form many times during the past ten weeks: Would a program of government investment, which would stimulate imports of capital goods, have been preferable to the type of private investment which has taken place, viz., the repatriation of foreign debts? This is, of course, a matter of government policy. In so far as its economic effects are concerned, as I pointed out in a memorandum which is on pages 148-151 of the record, they are entirely dependent on the specific character of the expenditure. Perhaps the most fundamental problem facing this country is whether it shall stake its future on increased exports or greater self-sufficiency. There are so many major uncertainties at the present time that probably no basis for a reasoned decision exists. But unless or until the government of Canada has decided upon a policy of moving the country toward a much greater degree of self-sufficiency, it seems to me that a most important criterion of the desirability or otherwise of government expenditure is that it should strengthen the competitive position of our economy rather than weaken it by increasing any overhead or fixed operating expenses which are chargeable to exporting industries. As Mr. Deachman mentioned, we must, in order to stimulate private enterprise have either a rise in prices or a reduction in costs. In the export trades, where prices are largely outside our influence, the emphasis must always be on costs. That is why I think that the types of expenditure included in a government program are more limited in scope and should be chosen with much greater care than they would have to be in more largely self-contained countries such as the United States, Germany, or even Great Britain.

Finally I must mention once more a consideration which is vital in all countries; if private enterprise is to remain the motive force of a functioning economy every precaution should be taken to see that government policies do not have the effect of discouraging it.

Finally, there have been during the course of the meetings one or two references to the United States' gold buying policy. On both occasions I have mentioned a letter written by Mr. Morgenthau to Senator Wagner in that connection. It was mentioned this morning, and I am not quite clear whether or not the committee wanted that placed on the record?

Mr. Tucker: Yes.

The Chairman: Yes, please.

Mr. Towers: Then I have it here.

Letter from Mr. Morgenthau to Senator Wagner

TREASURY DEPARTMENT

Washington

For Immediate Release, Press Service No. 16-83

Thursday, March 23, 1939.

Secretary Morgenthau today made public the following letter from Senator Robert F. Wagner, Chairman of the Banking and Currency Committee of the Senate, and his reply thereto:

UNITED STATES SENATE

Committee on Banking and Currency

March 14, 1939.

My dear Mr. Secretary:

My interest in our monetary policy as Chairman of the Senate Committee on Banking and Currency has, of course, been intensified by the Committee's

present consideration of my bill (S.910) to extend certain monetary powers. I should like your help in answering a number of questions which have arisen both before and during our consideration of the bill.

I ask these questions with no critical intent, but solely with the hope of clarifying the whole subject. I realize that they relate to problems which are somewhat complex and technical and that any comprehensive answer may of necessity be somewhat lengthy. Nevertheless, I feel that a satisfactory discussion of them would be very helpful to the Congress and the public and I would appreciate your going into some detail.

The questions that seem to me most pertinent are these:

1. Who owns the gold now in the Treasury?
2. How much of the gold in the Treasury has been purchased with funds obtained from the sale of interest-bearing obligations of the government?
3. Why has so much gold come to the United States in the past five years?
4. Is it true that gold comes here in large amounts because the Treasury is paying a higher price than other countries for gold and because it buys gold at a fixed price?
5. How much more gold do you think we will get?
6. Why doesn't the Treasury stop buying gold?
7. Of what use to us is this large stock of gold? Is there any likelihood that we will get so much of the world's gold that we will "get stuck" with it?
8. Isn't it true that foreigners are getting shares of our productive industries and giving us in return gold that we have no use for?
9. What action, if any, should be taken with respect to the gold situation? Should we, for example, return to the gold standard of pre-1933?
10. Did devaluation of the dollar in 1934 have an unfavourable effect on our imports?
11. Who in England and France has the power of altering the gold value of their currencies and what is the extent of that power?
12. Is there any basis to the contention that the power to devalue operates to undermine the business man's confidence so as to deter him from making loans and investments in the United States?

I believe that you can supply more satisfactory answers to these questions than anyone else and I should therefore appreciate your replying to them at your earliest convenience.

Very sincerely yours,
(Signed) Robert F. Wagner.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

March 22, 1939.

My dear Senator:

In your letter of March 14 you ask several important questions. These and similar questions, relating to gold and foreign exchange, have been asked so frequently that I welcome this opportunity to answer them and to make clear the policy of the Government with respect to these matters.

As you say, the questions raised involve technical matters which cannot be adequately handled in a page or two. However, I shall be as brief as is possible with materials of such complexity.

1. *Who owns the gold now in the Treasury?*

Title to all gold held by the Treasury, now amounting to about $15 billion, is vested in the United States.

A large part of this gold ($12,336,858,533 on March 15, 1939) is held as security for gold certificates (or credits payable in gold certificates) issued to and held by the Federal Reserve banks pursuant to the Gold Reserve Act. Such gold certificates may be redeemed in such amounts of gold bullion as, in the judgment of the Secretary of the Treasury, are necessary to settle international balances or to maintain the equal purchasing power of every kind of United States currency.

The remainder of the gold held by the Treasury is accounted for as follows:—

Gold Reserve—held pursuant to law as a reserve against United States notes and Treasury notes of 1890.. ..	$ 156,039,340
Allocated to the Stabilization Fund..	1,800,000,000
Gold in General Fund (against which gold certificates or credits have not as yet been issued):	
(*a*) Balance of increment resulting from reduction in the weight of the gold dollar..	142,288,196
(*b*) In working balance..	547,899,564

The Treasury disposes of gold in the following ways:—

(*a*) For use in industry, profession or art. Any person needing gold for any such purpose can purchase gold from the Treasury.

(*b*) For the purpose of meeting the international balance of payments. To this end the Treasury sells gold to the members of the Tripartite Accord and to their stabilization funds and fiscal agencies. The Treasury also may sell gold to foreign central banks upon application and under special conditions.

Neither Americans nor foreigners can obtain gold from the Treasury for the purpose of hoarding.

2. *How much of the gold in the Treasury was purchased with funds obtained from the sale of interest-bearing obligations of the Government?*

The Treasury pays for gold with the cash assets in the General Fund, specifically out of the Treasury's deposit account with the Federal Reserve Bank of New York. The account is normally compensated by the deposit with the Federal Reserve Bank of gold certificates or gold certificate credits issued against the gold then acquired.

Up to December 22, 1936, it was the policy of the Treasury to issue to the Federal Reserve Bank gold certificates or gold certificate credits against the full value of the gold acquired. Under this procedure the purchase of gold by the Treasury did not involve any increase in the Federal debt either directly or indirectly. Shortly after December 22, 1936, however, the Treasury Department adopted a different procedure with respect to new gold purchases. Gold purchased was placed in an "inactive gold" account and paid for from the general cash balance of the Treasury without issue of additional gold certificates against the new gold acquisitions.

This procedure was departed from several times, however, by the issuance of gold certificates against gold released from the "inactive" account or against gold acquired but not placed in the "inactive" account. The "inactive" account was discontinued in April, 1938, and at that time the Treasury issued $1,400 millions in gold certificate credits to the Federal Reserve banks against the gold released from the "inactive gold" account and thus increased its cash balance

by that amount. Since that time the Treasury has followed a policy of issuing gold certificates periodically for additional gold acquired. Gold purchases are permitted to accumulate in the General Fund in varying amounts before gold certificates are issued against them. On March 15, 1939, there was in the General Fund $548 million of gold purchases against which gold certificates had not yet been issued but which had been paid for by checks drawn on the Treasury account with the Federal Reserve Bank of New York.

3. *Why has so much gold come to the United States in the past five years?*

Gold comes into the United States in settlement of the balance of international payments arising out of all transactions between the United States and all foreign countries. These international transactions include exports, imports, shipping services, tourists' expenditures, capital movements, interest payments, etc. When the demand for dollar exchange increases more rapidly than the supply of dollar exchange resulting from these transactions, the price of dollar exchange on the foreign exchange market rises. It may rise to a rate at which it becomes profitable for bankers and dealers, foreign and American to ship gold to the United States, sell the gold to the Treasury for dollars, and then sell these dollars on the foreign exchange market.

A survey of our balance of payments for the last few years reveals at once that the greatly increased demand for dollar exchange which has taken place during the past five years is largely a consequence of the huge flow of capital to the United States and, more recently, of the large "favourable" trade balance. None of the other categories of items in our international transactions can be held responsible for the substantial net increase in the demand for dollar exchange during this period. In fact, for several important categories the net demand for dollar exchange decreased. It is the flow of capital to this country, particularly before 1938, upon which our attention must be focused if we are to understand the chief reason for the large gold inflow.

The following figures show the contrast between the large recorded inflow of capital in the past five years and persistent and large outflow of capital in the years preceding:—

	million outflow		million inflow
1928	—850	1934	+ 386
1929	—217	1935	+1,537
1930	—752	1936	+1,141
1931	—490	1937	+ 800
1932	—192	1938	+ 369
1933	—336		

The capital inflow of in the years from 1935 through 1937 was the major factor responsible for the inflow of gold, for it amounted in total to $3,500 million or 86 per cent of the value of gold imported during that period.

The trade item did not become important from the point of view of gold inflows until the last quarter of 1937. From 1934 to 1937 the excess of our exports over imports averaged only $250 million a year. (Incidentally, if silver imports were included in our merchandise imports, which is the procedure followed by many countries in the world, our excess of exports over imports would have amounted to only $80 million a year in this period.) In 1938, however, the favourable trade balance greatly increased and was the dominant factor inducing the large flow of gold into the United States. The excess of exports over imports totalled $1,134 million—the largest we have had in seventeen years. This increased "favourable" balance of trade, together with other items, was responsible for the net inflow in that year of $1·6 billion of gold.

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Thus it is evident that because there was a large inflow of capital in recent years, and in 1938 a large excess of exports over imports, there was a great increase in the net demand for dollar exchange; and because of this large increase in the net demand for dollars there was a large inflow of gold. Therefore, in the final analysis your question: "Why has so much *gold* come into the United States?" reduces itself to the questions: "Why did so much *capital* come to this country during the past five years" and "Why did we have so large a 'favourable' trade balance in 1938?"

The answer to the first of these two questions, together with a description of the kinds of capital coming here, was given in some detail in my letter to Senator Vandenberg of September 22, 1936, a copy of which is enclosed for your convenience.

In Section 3 of that letter the causes of capital imports into the United States are set forth as follows:—

(*a*) Capital withdrawn from abroad by American owners because of the greater security or the more attractive field for investment offered the capital at home. The return of these funds to the United States —much of which left the country in 1930-31-32—is, of course, an indication of the relative strength of our recovery and of the prevailing confidence in the future of American industry and American financial institutions.

(*b*) Funds sent to this country by foreigners who likewise felt that American securities offered a more attractive or more secure investment opportunity than did investments available to them elsewhere.

(*c*) Repurchase by foreigners of some of the foreign securities which Americans had purchased during the post-war decade and were now glad to get rid of even at low prices. This was particularly true of the securities of certain countries where nominal high exchange rates were coupled with devices whereby the nationals of these countries were encouraged to repatriate these securities at an exchange profit to themselves, or where maintenance of debt service was provided for only internally but not for foreign holders.

(*d*) Need created by increasing foreign trade for larger working dollar balances to be kept in American banks by foreign banks and traders. Our international trade during 1934 and 1935 increased by one-third over the two years previous. It is to be expected that this greater volume of foreign trade transactions would call for larger working dollar balances.

(*e*) Fear prevailing in some countries abroad of confiscation of property or of loss through inflation of their local currencies led during this period to a flight of capital from some of the countries whose economic and political situations have been threatened by disturbances with which you are doubtless familiar.

(*f*) Lastly, funds sent to this country by speculators in the hope or expectation that an exchange profit will be possible if and when the currencies of their countries become depreciated in terms of the dollar.

These are the causes which account for most of the capital inflows. Yet these capital inflows would not have resulted in such large sums being due to the United States were it not for the virtual cessation of foreign investments by Americans. Whereas in the years prior to the depression, annual foreign investments by Americans of more than a billion dollars were common, since 1931 the annual sums invested abroad have been negligible; nor does it appear that the United States will approach in the near future the predepression volume of foreign investment.

Since the above was writteen (September, 1936), nothing has occurred to alter substantially the trend of capital movements or the reasons for them. With the exception of one nine-month period, capital has continued to flow to the United States in large volume. During that nine-month period, October, 1937, to June, 1938, there was a net outflow of short-term capital of over $1 billion, but the flow reversed during the Fall of 1938, and more than a billion of short-term capital has since come to the United States.

Capital will continue to flow into the United States in large amounts so long as:—

(*a*) The opportunities for secure and profitable investment in foreign countries are not great enough to attract American capital abroad;

(*b*) The prospects of continued recovery here appear satisfactory to foreigners.

(*c*) The political situation abroad remains disturbed;

(*d*) There is possibility of further depreciation of some foreign currencies.

Whether the flow of capital into the United States will continue to take the form of gold of whether it will gradually assume the form of goods and services rather than gold depends upon the rapidity with which the mechanism of adjustments of international accounts operates. In earlier decades this adjustment process operated tolerably well and with fair speed to transform international movements of net balances into movements of goods and services. This adjustment process served to keep gold movements between countries relatively small in volume. In recent years, however, this mechanism has operated badly and haltingly. Moreover, it has had to operate under sudden and large capital and trade shifts which differed from those of earlier decades not only in magnitude but in character. To put it graphically, the mechanism of adjustment has had a heavier load to carry, the road has been uphill, and the incline has grown steeper.

The reasons and nature of this change taking place in the effectiveness of the so-called adjustment process of international accounts are matters too technical to warrant discussing in this letter. Suffice to say that because the numerous obstacles to rapid adjustment still prevail in virtually all countries with free exchanges any large movement of capital to the United States in the near future will doubtless take the form largely of an inflow of gold.

The significance of this fact as an explanation of the continuing flow of gold to the United States cannot be emphasized too strongly. As compared with the decades prior to 1930, there are now different relationships between international movements of capital and of gold, changes in domestic price levels, trade changes, contraction and expansion of credit, and changes in the volume of business activity. Realization of this basic economic change is necessary to appreciate the need for treating present day problems of gold and capital flows quite differently than was appropriate prior to 1929. Monetary experience of those years, particularly in its international aspects, does not suffice for safe guidance for present day policy.

4. *Is it true that gold comes here in large amounts because the Treasury is paying a higher price than other countries for gold and because it buys gold at a fixed price?*

This is a question we frequently hear. Unfortunately it is not wholly clear just what is meant since the phrase a "higher price for gold" may be interpreted in two different ways, and the answer to each of the two interpretations would be arrived at through quite different lines of reasoning.

If the question be interpreted to mean that gold comes to the United States in large amounts because we pay a "higher price" than other countries do in terms of money price (i.e., in terms of dollars) then the answer is definitely "no".

The United States pays the same price for gold, allowing for arbitrage and transportation costs, that any other country does—no more and no less. We do not pay any higher prices for gold than does England or France or Belgium or India.

The price of gold that is permitted to move freely in international channels of trade is (and must be) virtually the same the world over. An Englishman who sells gold in London gets the same return in pounds and shillings for it—with small variations to be explained in a moment—as he would get were he to send the same gold to New York or to Amsterdam or to Paris or to Bombay to be sold. Right now, for example, he would get about 148 shillings for an ounce of gold in the London gold market. If he ships that gold and sells it to the United States, he gets \$35 an ounce (less $\frac{1}{4}$ of 1 per cent). When he converts the dollar proceeds of the sale of that ounce of gold back into sterling and deducts the expenses of shipping, he gets approximately the same amount of sterling as he would have obtained had he sold the gold at home—namely, about 148 shillings. In other words, when a foreigner translates the dollars he gets from the sale of his gold back to his own currency, he finds that the price of gold is almost the same in London, Paris, Amsterdam, or Johannesburg. We pay dollars for gold, England pays sterling, Holland pays guilders, etc., but when conversion from one currency into another is made at the prevailing exchange rates we find that an ounce of gold brings approximately the same price in one country as in another.

I say approximately the same price. There are slight relative variations in the price as between different countries, variations which invariably result from changes in the supply of and demand for foreign exchange. Any change, no matter how slight, in the relationship of the supply of foreign exchange to the demand will bring about a change in the price for foreign exchange. The fluctuations of exchange rates, together with the fluctuations in the price of gold in terms of foreign currencies, result in the occurrence of relative differences in the price of gold in different national money markets when computed in terms of a single currency, but these relative variations can occur only within narrow limits.

These slight relative variations in the price of gold as among various markets which make possible a profit in shipping gold from one country to another would continue whether we paid \$10 an ounce for gold, or \$50, or \$60. Slight variations in the dollar-sterling, dollar-franc, dollar-guilder rates, etc., do give dealers small profits when selling gold in one market rather than another but these variations operate as among all countries and at all levels of prices for gold; they are not peculiar to the United States alone, nor to the \$35 price for gold. Exactly the same condition prevailed when the price of gold was \$20·67 an ounce and when other countries had a fixed price of gold. It is the normal mechanism which has always prevailed and must inevitably prevail so long as gold is the international medium of exchange.

To dispose briefly of another common misconception. It has been sometimes claimed that gold comes here because the United States pays a fixed price for gold, whereas other countries buy gold at varying prices. The mere fact of fixity of the price of gold in terms of any given currency has little to do with the movement of gold. For example, England does not have a fixed price of gold, and yet her net imports of gold in some of the past few years were greater than ours. Belgium has had a fixed price for gold for two years, yet her reported gold holdings are no higher now than they were three years ago. Moreover, our gold price, although fixed in terms of dollars, is not fixed in terms of other currencies. When, for example, an Englishman sells gold to the United States, the number of dollars he gets may be fixed, but the amount of sterling he gets, if he converts the dollars into sterling, is not fixed; it fluctuates with every change in the sterling-dollar exchange rate. The amount

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in his own currency which an Englishman or a Frenchman receives when he sells gold is not fixed whether he sells his gold in New York, London or Paris.

So far in answer to this question the discussion has been based on the interpretation of the phrase "higher price" as meaning higher monetary price. If, however, the phrase is to be understood to mean—as is doubtless intended by many who put the question—a "higher price" in terms not of money but of goods and services, then the question becomes a quite different one. It should then be phrased as follows: "Is it not true that gold comes to the United States in large amounts because we give more goods and services for a dollar (or its monetary equivalent in foreign currencies) than does any other country?"

The answer to this question is likewise "no," though less unqualifiedly so because adequate statistical data for a categorical answer are not available.

The purchasing power of the dollar in the United States in terms of goods can be compared with its purchasing power in other countries only very roughly and only with respect to those goods which do (or easily might) move from country to country. With respect to "services" comparison of the purchasing power of the dollar in the United States and elsewhere relates chiefly to shipping services and the expenditures by tourists.

Now it is extremely difficult to measure the differences in purchasing power of gold or currency as between different countries even with respect to such goods and services. Fortunately, for the puproses of the question we are examining, no such measurement is necessary. Were it true that an ounce of gold had a significantly higher purchasing power over American internationally traded goods than over foreign goods, indirect but definite evidence would be revealed in our trade figures. Our export excess would have so increased since 1933 that either we would have drained the outside world of all its monetary gold, or we would have forced other countries to adopt strict exchange or import controls or much higher tariff schedules. No such developments have occurred. Foreign countries still have large gold holdings; many of them have not significantly heightened their barriers against imports of the world.

Convincing evidence that we do not pay a higher price for gold than do other countries in terms of goods and services is contained in the record of our balance of international payments on current account. For the years 1934 to 1937, inclusive, the balance of payments wtih respect to the pertinent commodity and service items was in the aggregate unfavourable by $1,200 million, as far as the records show. Unfortunately, however, our international accounts, though more complete and reliable than those of other countries, are still subject to a substantial margin of error. In each year there has been a substantial "residual" item (i.e., unaccounted for) which during the four years in question totalled approximately $1\frac{1}{2}$ billion due the United States. Some portion of this unfavourable balance must be allocated to trade and services—how much it is impossible to know. But, even if we allocated the whole residual item to commodity and service items—which would be an extravagant allowance—there would result only a small balance due the United States for those items during the four years in question—$400 million for the four-year period. This constitutes too small a sum relative to the magnitudes involved in our balance of payments to justify the claim that an ounce of gold can buy more here than elsewhere.

There is little basis, therefore, for the contention that an ounce of gold could in general buy more goods and services in the United States than elsewhere from the years 1934 to 1937, inclusive. Or to put it in simpler and more accurate terms, the United States did not achieve any special competitive advantage in international markets as a consequence of its external monetary policy. The change in the gold value of the dollar in 1933 merely helped the United States to regain its earlier position. In 1938 the trade situation appeared to change. We did experience a sharp increase in our trade balance. Exports, as pointed out earlier, exceeded imports in 1938 by some $800 million more than in 1937.

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But most of this increase cannot be attributed to any changed relationship of the dollar to other currencies because the exports excess arose from a sharp decrease in imports, and not from an increase in exports. The recession in the United States more marked and earlier than in other countries caused a temporary decrease in our purchases from abroad greater than the simultaneous decrease in our exports. This gap may be expected to narrow as recovery proceeds.

The only sense in which it might be said that we give more for gold than other countries is that in addition to $35 an ounce we also give peace, security, prospects of higher returns on investment, and better speculative opportunities, with the result that foreign capital funds flow here in the shape of gold. It is these values that constitute the chief factor conducive to a flow of gold to the United States.

5. *How much more gold do you think we will get?*

How much we will get depends upon the extent and direction of changes in our balance of trade and services upon the output of new gold, and upon the trend of capital movements.

Since capital movements are so sensitive to international political and economic developments, one can only hazard a guess as to their future trend. At this moment it looks as though the European situation will remain so disturbed as to postpone for some time any substantial repatriation of foreign balances. It also appears as though early resumption of American lending abroad such as would cause a gold outflow is extremely unlikely.

As for our balance on commodity and service items, the fear of war and the preparation for war by foreign nations are likely to sustain our exports and reduce American tourist travel in Europe and Asia—both developments making for additional gold inflows. On the other hand, continuance of our recovery here will tend to increase our imports and to increase American tourist travel in the Western hemisphere. I believe the latter trend will outweigh the other and that on commodity and service account the net balance due us will be less in 1939 than it was last year. On the other hand, capital inflows will probably be large so that, on the whole, it appears that in the near future the United States will continue to get gold, perhaps in as large volume as in recent years.

Current world gold production (outside the United States) now amounts to over one billion dollars per year. The bulk of this newly-mined gold can go only to a few countries. Most countries now utilize practically every available dollar of foreign exchange to purchase imports or to make additional payments on outstanding foreign debts. Much as they would like to acquire gold, and much as they need it, they want to acquire additional imports even more. Therefore, it is to be expected that until current hostilities and intensive preparedness for wars cease, and until the world economic situation improves, the bulk of the newly-mined gold will be added to the monetary stocks of only a few countries and the United States will get a substantial share of it.

6. *Why doesn't the Treasury stop buying gold?*

A simple way of stopping gold from coming into the United States would be for the Treasury to announce to the world that we will not buy any more gold for the time being. But, such a step, taken unilaterally, would have disastrous effects on our economy. It would disrupt the foreign exchanges and gold bullion markets and would very soon cause such drastic disturbances in international trade and even in the domestic sphere as seriously to impede the recovery of business.

Present relationships among the various leading currencies would be upset. The dollar probably would appreciate immediately in terms of other leading currencies. At present, when the demand for dollar exchange increases, for-

eigners need only obtain gold (either at home or on the London market), ship it here and obtain dollars in exchange. Thus an increased demand for dollar exchange relative to the supply is met. If, however, this means of securing dollar exchange were removed, dollars would rise in value indefinitely in terms of other currencies. While it is impossible to know in advance what rates of exchange would finally emerge, we can be certain of at least one thing—that no country would benefit from the ensuing international monetary disruption.

Were the United States, moreover, to declare a complete embargo on gold imports, it might deal a serious blow to the value of gold as a monetary medium. (Such action coming at a period when there was discussion of the possibility of world over-abundance of gold might have repercussions which would disturb the public's confidence in the value of gold.) The leading gold producing areas would be hard hit and some might even be involved in a major economic crisis.

A closely related question that has frequently been asked is: "Should not the price of gold be reduced? Is not $35 an ounce too high a price for gold?" Possibly the simplest way to answer this question is to examine the consequences that would ensue from an increase in the gold content of the dollar (or, to phrase it another way, from a decrease in the monetary value of gold).

A reduction by Congress in the monetary value of gold would probably not be as calamitous as a complete embargo. It would limit the extent of possible depreciation of gold (or appreciation of the dollar in terms of foreign currencies) and the psychological disturbance caused by the change would not be as potent, yet it would have disadvantages serious enough to render resort to any such action most unwise. If the reduction made in the price of gold were small, our trade and service balance would not be much affected over the next year or so, nor would the inflow of capital cease. Once the drop in the price of gold was regarded by the rest of the world as definitive, the subsequent effect on capital imports would be virtually nil. Our securities would continue to be bought for the same reasons that they are bought now and dollar balances on foreign account would also continue to increase for the same reasons that they are increasing now. But, were a small decline in the price of gold to be regarded by numerous domestic and foreign investors and exchange speculators as being but the first of a series of drops, the result might well be to attract more, not less, funds to the United States, and to intensify the inflow of gold—the very thing it is designed to check. Speculators would rush to buy dollars and hold them here in anticipation of the next appreciation. Thus the effect on capital movements, both long-term and short-term, might more than offset the effect on trade and service items; instead of getting less gold we would find ourselves getting more.

On the other hand, were the monetary value of gold to be cut with one stroke substantially, and definitely—say, for example, to $25 an ounce—the effect would be quite different from that described above. Such a step might reduce the volume of gold imports and perhaps give rise to an outflow of large dimensions; but, the economic effects on our economy of the change in the foreign exchange value of the dollar would be little short of disastrous. The 40 per cent increase in the price of American currencies to foreigners would constitute a severe handicap upon our exports. Our exports play a role in the level of business activity much in excess of the magnitudes involved and so great an appreciation of our currency in terms of other currencies would be bound to curtail our exports seriously. In the past six months the dollar has appreciated in terms of other leading currencies by some 5 per cent and price movements in the various countries have not been such as to offset this competitive disadvantage to us. The appreciation of the dollar has not been due to a change in the dallar price for gold but rather to a depreciation of foreign currencies in terms of gold. You will note that our exports during January 1939

were more than 40 per cent less than they were in January 1938. Although it is too soon to evaluate the full significance of the decline, it is not reasonable to assume that the less favourable position of the dollar in terms of other currency (i.e., higher prices of foreign currencies in terms of gold) contributed to the drop in exports.

Our imports on the other hand would, in the event of a reduction in the price of gold to $25 an ounce, be 30 per cent cheaper. Our domestic producers would then be exposed to greatly sharpened competition in the American market from foreign producers both because the prices in dollars of imports would be less, and also because the numerous ad valorem duties would constitute smaller protection.

Foreigners would have a greater advantage in this market but unfortunately even this would be of dubious value to them. The ability of Americans to buy goods, whether imports or domestic goods, depends chiefly upon the state of business activity here. It is chiefly for that reason that our imports during the recession of 1938 dropped to almost one-half and that our imports began to increase in the Fall of 1938. Thus, though the sharp appreciation of the dollar would make foreign goods cheaper in this country, our imports might actually be less than during the previous period and instead of benefiting the rest of the world we would be hurting world business as well as our own.

Judging from past experience we could not expect the prices of domestic commodities and services to move either at home or abroad with sufficient rapidity to adjust quickly and fully to any substantial alteration in exchange rates. For many months, perhaps for years, the economic position of large groups of American producers, including farmers, would be worsened and there would be widespread unemployment. The combined effect on our domestic economy of a sharp drop in exports and of increasing competition in the domestic market would be keenly felt. Domestic prices would begin to fall. Many corporations would suffer loss of business and profits. In times such as the present these short-run effects—and by short-run we mean from a few months to several years—are of paramount importance. To brush aside, as some are prone to do, these short-run effects on the ground that in the long-run appropriate adjustments will take place is to ignore the unstable world in which we live and the real problems which confront us from day to day.

Moreover, were we to reduce the price of gold and were it to result in an outflow of gold there is no reason to believe that the countries who most need gold would get it. On the contrary, were gold to leave the United States it would probably find a resting place in the very countries whose currencies would for the moment appear most secure. Certainly no gold would flow to Latin American countries in any substantial amount, nor would the Far East or the Bankens obtain more gold. The loss of gold by the United States would not correct the serious maldistribution. It would rather operate only to take away some from the United States which has too much and to add it to the holdings of other countries which likewise have too much.

Thus we are confronted with the fact that though we should like to receive less gold and even to get rid of substantial amounts of the gold we already have, there is, under the existing circumstances, no acceptable alternative to the policy we have been pursuing. In the cast of all the proposals we have examined, the remedy has always been worse than the disease. The best way to reduce our gold inflow on commodity and service account is for us to have full recovery so that our imports will rise more rapidly than our exports.

7. *Of what use to us is this large stock of gold? Is there any likelihood that we will get su much of the world's gold that we will "get stuck" with it?*

Gold performs two monetary functions. First, it serves as a specie base for the monetary system. Secondly, it serves as the medium for settling international balances. These are distinct and separate functions. The present

gold stock of the United States is about $15 billion. The question you ask, therefore, is "Is $15 billion of gold more than enough to accomplish these two functions which gold now performs in our economic system?"

It is doubtless true that we have more gold than we need to provide a specie base for our monetary system. Our laws require that a 40 per cent reserve in gold certificates be held against Federal Reserve notes in circulation and a 35 per cent reserve in gold certificates or lawful money against deposits of Federal Reserve banks. These legal reserve requirements are based on the assumption that gold reserve requirements operate as a control of the volume of means of payment, as a protection against excessive issue of notes and expansion of bank credit. At present, however, gold and gold certificate holdings are so far in excess of these legal requirements that they can hardly be said to constitute a protection against undue expansion of our currency and credit. We now have enough gold to permit an enormous expansion of credit and currency even after generous allowance for the outflow of gold that might accompany such an expansion. Legal reserve requirements do not of themselves necessarily protect us against an undue expansion of the volume of money and the monetary authorities must be prepared, when and if the occasion arises, to apply appropriate supplementary control. This is especially likely to be true when gold holdings are as great as they now are.

But it is desirable that the reserves be above the minimum required by law. Otherwise in a period of business recovery the limitations on the expansion of notes and deposits which the gold reserve would impose would operate to curb the rise in business activity, or an outflow of gold would tend to initiate a contraction of credit, irrespective of the legitimate needs of business. It is clear, therefore, that some excess of gold above the legal minimum is needed to protect our domestic economy against effects of fortuitous inflows and outflows of gold. We now, however, have more gold than is necessary to insure this protection.

The second and more important monetary function of gold is its employment as a means of settling international balances among nations. Gold has been used for this purpose from time immemorial, and modern governments have as yet found no satisfactory substitute; nor is there any sign that a satisfactory substitute will be found in the near future.

Important commercial countries which carry little or no gold stocks have difficulties in settling their international payments. They have to see to it that their imports and exports are maintained in a certain relationship to each other. To achieve that and to keep their foreign exchange rates from fluctuating wildly they frequently have to maintain strict exchange controls so as to restrict merchandise imports and the movement of capital.

Small countries, which are not precluded by political and prestige considerations from holding their reserves in the form of foreign exchange assets, can get along more or less satisfactorily without gold. But they can do so only because the countries whose currencies they hold as reserve assets do have large amounts of gold reserves.

Some countries (operating with very little gold or foreign exchange assets) have been pointed to as illustrations of the phenomenon that countries can carry on foreign trade and settle international transactions without resort to gold, and that gold is rapidly becoming obsolete even for this monetary role. Those who make this claim completely misread the experience of these countries. These very countries do in fact need and prize gold more and seek it more anxiously, than do countries that use gold freely to settle balances of international payments. It is their inability to obtain gold which forces them to adopt a far less satisfactory alternative method of adjusting their balance of international payments—namely, the adoption of strict exchange control, of clearing agreements, of barter schemes, and the imposition of severe penalties against evasion and all the other business and liberty destroying procedures

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necessary to make the system work. There is no one thing which demonstrates more effectively the superiority of gold as a means for settling international balances than the experience of those countries that have tried to get along without it.

Without either gold or exchange controls, exchange rates would be very unstable. Any change in the balance of payments would have to be taken care of by international borrowing or lending, or the exchange rates would have to move to the point where the sums to be paid and the sums to be received were equated. Because we have abundant gold reserves we do not have to apply exchange restrictions, and broad changes in our balance of international payments can take place without interfering with the stability of the dollar exchange.

All these points have been granted by some critics, but they maintain that to fulfill both these functions much less than $15 billion worth of gold would suffice. There is some merit to that contention, yet the future of international political and economic relationships is much too uncertain to justify our taking the steps which would be necessary if we were determined to reduce our gold holdings.

One important factor to bear in mind in considering our gold policy is the psychological reaction of the public to a continuing loss of gold. Should a country be undergoing loss of gold over a considerable period of time, there is likely to result impaired confidence in that country's currency and in the stability of its monetary system long before it has exhausted the gold it possessed in excess of legal or traditional reserve requirements. This has happened time and again throughout the world. Without greater ability to forecast future political and economic developments than is vouchsafed us, it is impossible to say with certainty that we have too much gold. We can say with some assurance, however, that we have enough gold to meet all likely contingencies, and that we are in a strong position to defend the stability of our credit structure and of the dollar against any quick change in our international balance of payments, including any large withdrawal of foreign capital.

The danger that gold will no longer be used as a medium of international exchange is so remote as not to merit serious consideration. Other countries will surely continue to accept gold in the settlement of favourable balances of payments, because gold is as important to them as it is to us. England has over $3 billion of gold. France has almost as much; Holland, Switzerland, and Belgium and many other countries have what are for them large holdings of gold. It is in the interest of these countries as much as it is in our own interest to continue to rely on gold as an essential part of their monetary system. Moreover, we must not overlook the fact that nations producing substantial quantities of gold have important vested interests in the continuation of gold as a monetary metal. The British Empire alone produces about half the world's gold. Even countries that produce relatively small, amounts of gold find that those small amounts are an important source of national income to them.

8. *Isn't it true that foreigners are getting shares of our productive industries and giving us in return gold that we have no use for?*

The amount of American securities which have been recently acquired by residents of foreign countries has been much less than is generally supposed. During the past four years the total of net foreign purchases of American securities amounted to only $1·2 billion, as follows:—

1935	$317,000,000
1936	601,000,000
1937	245,000,000
1938	49,000,000

There was, in addition, an increase in direct investments by foreigners as reported by the Department of Commerce of about $175 million during this period. Altogether, the total amount of investments by foreigners in American securities or directly in American industry during the past four years has been less than one-fifth of the gold sent here during those years.

These sums do not, of course, represent the total of foreign capital which has come into the United States. Short-term funds owned by residents of foreign countries increased by $1·8 billion. The bulk of these were demand deposits, which do not constitute acquisitions of shares in American industry and which do not earn any interest.

The acquisition of American securities by foreigners paid for with gold represents a transaction which admittedly is, under existing circumstances, of dubious advantage to the United States. Yet, given the relatively minor importance of the problem to date, we have not been able to convince ourselves that any of the possible remedies which we have so far examined gave promise of sufficient benefit to the national economy to offset their disadvantages.

On the other hand, it should be pointed out that if foreign holders of American securities liquidate their holdings and withdraw the proceeds, either gold or goods (and services) would necessarily be the resultant medium of withdrawal. If the vehicle of transmission were gold, its loss, in view of our large gold holdings could, of course, be regarded with equanimity. If the medium of transmission were goods, either because of direct purchases with the proceeds of the funds or because of the operations of the adjustment process, the resultant increase to our exports at a time when there exists a large volume of unemployed labour and other idle resources would have favourable effects on our economy.

9. *What action, if any, should be taken with respect to the gold situation? Should we, for example, return to the gold standard of pre-1933?*

The maldistribution of the world's gold is a reflection of the disturbed economic situation throughout the world and the chaotic international political situation. Redistribution can come only with progress toward the solution of the basic problems confronting world international relations.

In our study of this matter we have examined literally scores of proposals directed towards possible action to redistribute the world's gold. The major conclusion we have drawn is that any measure which would take the form of restrictions on the flow of gold into this country would have, at this time, detrimental effects upon our economy.

What disadvantages may be associated with the gold inflow are fortunately only minor magnitude, and should, moreover, be attributed to the factors causing that inflow rather than to the inflow itself. Foreign ownership of American securities may, however, serve as a source of disturbance to our security markets in times of stress; similarly with short-term foreign capital sent here. On the other hand, the third factor responsible for the gold inflow to the United States—our export excess—does yield a gain.

The large inflow of gold in recent years has been a major factor in increasing excess bank reserves. These reserves do in some degree operate to stimulate an expansion of loans by banks and to keep the interest rate structure lower—both developments helping somewhat to promote a higher level of business activity. Nonetheless, the prospect of continued large inflows of gold has been a cause of some concern on the part of those who consider a large volume of excess reserves as constituting a potential danger of inflation, though I do not regard this problem as one of immediate import.

The only immediately disturbing aspect of the gold problem is the loss of gold by foreign countries. The countries losing gold may be adversely affected

by the loss and some of the adverse effects would impinge indirectly on us. This is to be deplored, but the factors producing this situation are external to us and beyond our control, acting alone.

With respect to the suggestion that the United States return to the gold standard of pre-1933, I must state definitely that such a move would be harmful to the American people and of no value to the people of other countries. In the first place, a return to the pre-1933 gold standard would mean a return to the $20·67 an ounce price for gold. This in the absence of similar changes in the gold value of other currencies, would represent a depreciation of approximately 70 per cent in all foreign currencies in terms of dollars.

It is obvious that an increase in the cost of the dollar to the foreigner by 70 per cent and a decrease in the cost of foreign currencies to the American importer by 40 per cent would seriously disrupt our foreign and domestic trade. Price movements are not so general or so rapid as to adjust economic conditions quickly to changes in exchange rates, and such movements as would occur would take the form of falling prices, particularly prices of agricultural products and raw materials. From experience we know that such price movements have disastrous effects upon incomes, profits and the level of business activity. We might be precipitated into a depression rivalling the 1930-33 experience. There can be no question, therefore, of returning to a gold dollar with the pre-1933 content. The answer to Question 6 above contains a full discussion of the foreseeable effects which would result from any substantial increase in the gold content of the dollar.

Even if what were proposed were a return not to the old gold value but to a pre-1933 gold standard with the present gold content of $35 an ounce, such a step would be unwise at this time. Our present monetary system differs from the pre-1933 gold standard in three respects other than gold content. First, our currency is not convertible into gold coin, secondly, there are government controls over the movement of gold in and out of the country, and thirdly, there is executive authority to change the gold content of the dollar.

Convertibility of currency would, in my opinion, have no substantial advantages. Virtually every country in the world has recognized this fact and has withdrawn the privilege. For in normal times there is nothing to be gained by the right to convert currency into gold, whereas at all times convertibility has the potential disadvantage of creating a possible source of internal gold drain which would come into play at the very time when it would be most injurious. Internal hoarding of specie reserves has been, in the experience of many countries, one of the most important reasons for the weakening of currencies. Though the prospect of such a contingency in the United States seems at this time remote, it would nevertheless always be a possibility under a convertible currency system. Moreover, in the event that there should develop an emergency situation calling for a further change in the gold content of the dollar, the existence of private gold holdings would create unnecessary difficulties.

At present the movement of gold out of the country is in effect subject only to the restriction that it must be for the purpose of settling international balances. Gold moves freely to satisfy legitimate commercial and financial needs. The present powers of control over the movement of gold provide a safeguard that can instantly be used in the contingency of an international crisis.

The power to change the gold content of the dollar should be lodged in an authority which can, in case of necessity, act swiftly and in a manner which will minimize the disturbances resulting from any change. This power should always be available; its existence contributes to the maintenance of stable exchange relationships, which make the exercise of the power unnecessary.

It is important to realize that rumors of an impending change in the value of currency, or any public discussion by responsible officials that such a

change might be made, would in themselves be enough to induce large flows of capital either into the country or out of the country, depending upon whether the prospect is for an increase in the value of the dollar or for a decrease in the gold content of the dollar. Discussions in committees would be advance notice to speculators that such action might take place. The mere fact that it might take place would be sufficient to induce the flow of capital, because if the change did not actually occur, the speculation would have cost only the small charges attending any exchange transaction. Indeed, Congressional discussion would stimulate speculators to engage in activities of a sort which would of themselves tend to force Congress to take the action which had been in contemplation, even if on its own merits and in the absence of the situation created by the operations of the speculators, a negative decision would have been in order. The liquidation of foreign holdings of American capital might, under such circumstances, easily be powerful enough to disrupt the security exchanges and to introduce a chaotic situation in markets and in business generally. Since the prospect of devaluation would arise only under circumstances which were disturbing in any case, the outflow of capital would simply make bad things worse.

It therefore appears desirable that the Executive should have the power to alter the gold content of the national currency unit, in the public interest, and within clearly prescribed limits, as it is in most of the countries in the world, so that if an emergency situation should require its exercise, it could be exercised quickly, and without the necessity of prior public discussion and its concomitant invitation to speculative activities.

10. *Did devaluation of the dollar in 1934 have an unfavourable effect on our imports?*

Under one set of circumstances devaluation of a currency will induce an increase in imports and under a different set of circumstances it may decrease imports. Devaluation of the dollar in 1934 did contribute to an increase in United States imports.

The value of American imports varies, in the main, with domestic business activity. When business is good in the United States, our imports are high; when business is bad, our imports are low. For example, between 1929 and 1932 imports dropped from $4,400 million to $1,300 million, a decrease of more than two-thirds. Again in 1938, owing largely to the recession which prevailed through most of that year, our imports dropped more than one-third. On the other hand, during the years of recovery—1934, 1935, 1936 and 1937, our imports rose from the low of $1·3 billion to over $3 billion. Increases or decreases in the total value of a country's imports are due to changes in prices as well as to changes in quantity. A sharp drop in the prices of imported commodities which are competitive with domestic products has economic repercussions which are very disturbing to the country receiving the imports. At a time when business activity is declining, any potent source of further price declines serves only to lower still further the level of business activity and to increase unemployment.

The best way to increase our imports is to increase our national income. Any measure which serves to promote recovery increases our imports and contrariwise any measure which serves to reduce business activity operates to reduce our imports.

As a consequence of falling prices and declining business intensified by the widespread depreciation of other currencies in 1931-33, we bought less because our national income was less notwithstanding the greatly lowered cost of imported goods. Even though depreciation of the dollar made imported goods more expensive, the improvement in business activity which followed devaluation was one of the factors responsible for the rise in national income and the con-

sequent increase in imports. Whether or not depreciation of a currency will lead to increased or decreased imports depends upon the conditions which precede such depreciation, and upon other measures which accompany it, as well as upon the reaction of other affected countries.

11. *Who in England and France have the power of altering the gold value of their currencies and what is the extent of that power?*

In England the British Treasury has the power to alter the sterling price of gold through its operations in the gold market. There is no statutory restriction on the extent to which the British Treasury can change the sterling price of gold.

Similarly, the French Treasury, through the mechanism of its foreign exchange and gold operations, can alter the franc price of gold without any statutory restrictions. In addition, the Council of Ministers is authorized to fix ultimately by decree the gold content of the franc. As yet, they have not done so. The Council of Ministers, in other words, can decide whether or not there should be any statutory gold value for their currency and under existing law can fix that value at any amount it wishes.

12. *Is there any basis to the contention that the power to devalue operates to undermine the businessman's confidence so as to deter him from making loans and investments in the United States?*

A factor that more than any other will increase the confidence of business men in the future is the assurance that business will improve; a development contributing substantially to that expectation would be the prospect of a stable or moderately rising price level. What businessmen fear with regard to the dollar is not that the price level in the United States may remain stable or rise but that the price level in the United States may fall (i.e., that the purchasing power of the dollar may rise).

From past experience we know that falling prices have disastrous effects upon our economic system. The national income declines, business profits disappear, the security of loans is undermined and the level of business activity falls. If the businessman could be assured that price levels will not fall sharply, he would have greater confidence that business profits and the value of investments would be maintained and consequently he would be more willing to make investments and loans. At no time in modern history have lenders hesitated to lend during times of stable or moderately rising prices and at no time has their desire to lend increased during a period of substantially falling prices. The power to devalue should thus constitute for the businessman an added assurance that prices will not be premitted to decline much or sharply in response to a marked depreciation of foreign currencies. This added assurance of domestic price stability should operate as an encouragement to investment.

The present attitude of the owner of capital towards the prospective value of the dollar is one of full confidence. This is borne out by the eagerness of the public to invest in long-term fixed interest bonds at almost the lowest interest rate in the history of this or any other country. The fact that people are willing to invest billions at low rates of interest, and run the risk of depreciation of the real value of the bonds which would accompany any sharp rise in the general price level, suggests that they have confidence in the way which counts most; namely, by their willingness to risk their capital.

The assertion that the continuance of the power to change the gold content of the dollar generates lack of confidence and hesitation in the business world is not, I am convinced, based on factual considerations. Rather, it seems to me, it stems from an effort to re-establish the validity of monetary theories that are ill adapted to the circumstances prevaling in recent years.

Monetary disturbances in the world to-day arise from causes almost entirely outside our control. The effect of these disturbances on our monetary system has been such as to reflect greater confidence in the American dollar than in any other currency. This tribute to the soundness of the dollar, taking the form of huge transfers of funds to the United States, creates an unbalance which is the only factor in the situation which gives us any cause for real concern. The powers we possess have been sufficient to prevent any significant damaging effect on our domestic system. The monetary powers granted to the President by the Congress have been employed in such a way as to be powerful forces for stability rather than instability in the domestic economy and in the international field alike.

Sincerely,

(Signed) HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

Honourable ROBERT L. WAGNER,
United States Senate.

By Mr. Quelch:

Q. I wonder if Mr. Towers would give us a breakdown of that 3 per cent which he mentioned as the cost of doing business for the banks—A. As I say, that is a guess, I think it is a guess that is reasonably accurate, but that is all it is.

Q. Is that due to the high salaries they pay?—A. No, the average salary in the banks is comparatively low. About 2 per cent is their cost of operation, and of course the 1 per cent is the interest on deposits.

Mr. DEACHMAN: That is a thing which puzzled me too. I was somewhat puzzled to understand the tremendous operating cost for the banks. I had intended asking Mr. Towers a question about that but at the time I was so interested in other things I forgot to.

Mr. TOWERS: Yes?

Mr. DEACHMAN: If you take their investments and assets and multiply that by three per cent it makes a tremendous operating cost for the banks, it becomes one of the biggest industries.

Mr. TOWERS: One per cent is really interest on deposits; in other words, a bank with a hundred million of assets has operating costs of something in the neighbourhood of $2,000,000.

Mr. DEACHMAN: That seems to me to be high.

Mr. TOWERS: If you take into consideration the large number of branches that would be operated by the bank throughout the country, together with the number of staff they have and the general cost of upkeep—light, heat, overhead and all the rest of it—

Mr. DEACHMAN: That would mean that the cost of operating banks in the Dominion would amount to about $60,000,000 or $70,000,000.

Mr. TOWERS: I should imagine it would be something close to $50,000,000; on the Canadian business.

The CHAIRMAN: The committee stands adjourned.

The committee adjourned at 6.05 o'clock p.m., to meet again on Monday next, May 29, 1939, at 11.15 o'clock a.m.

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SESSION 1939
HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS

Respecting the

BANK OF CANADA

No. 25

THURSDAY, JUNE 1, 1939

INCLUDING REPORT TO THE HOUSE

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1939

MINUTES OF PROCEEDINGS

THURSDAY, June 1, 1939.

The Standing Committee on Banking and Commerce met this day at 11.15 a.m., the Chairman, Mr. Moore, presiding.

Members present: Messrs. Cahan, Clark (*York-Sunbury*), Cleaver, Coldwell, Deachman, Donnelly, Dubuc, Dunning, Fontaine, Hill, Howard, Hushion, Jaques, Kirk, Lacroix (*Beauce*), Moore, Perley (*Qu'Appelle*), Ross (*St. Paul's*), Stevens, Thorson, Ward, White, Taylor (*Nanaimo*).

Following consideration of Bill No. 132, An Act to incorporate the Central Mortgage Bank, at 12.15 p.m., the Committee resumed consideration of the Report of the Bank of Canada.

After a brief discussion, the Chairman submitted a draft Report constituting the Committee's final report on this reference.

On motion of Mr. Thorson,—

Resolved,—That a recommendation be added to the Report to the effect that extracts from the evidence comprising written statements by the Governor of the Bank of Canada and tables supplied by Governmental Departments be printed in blue book form.

Ordered,—That the Report as amended be adopted and that the Chairman present same to the House.

The Committee adjourned *sine die.*

R. ARSENAULT,
Clerk of the Committee.

REPORT TO THE HOUSE

EIGHTH REPORT

THURSDAY, June 1, 1939.

The Standing Committee on Banking and Commerce begs leave to present the following as its

EIGHTH REPORT

By order, February 20, 1939, the House of Commons referred the Report of the Bank of Canada for the year ended December 31, 1938, to the Standing Committee on Banking and Commerce to inquire into all matters pertaining thereto.

Your Committee has held thirty sittings on this reference and has heard considerable evidence.

Your Committee in the conduct of its inquiry has at all times had the active assistance and co-operation of of Mr. Graham Ford Towers, Governor of the Bank of Canada, and wishes to express its appreciation of his valuable services. Your Committee is indebted also to Dr. W. C. Clark, Deputy Minister of Finance, for the historical background of banking and currency in Canada and glossary of monetary terms furnished by him.

Your Committee has been unable in one session of Parliament to complete its study of so wide a subject and recommends that the study of the subject be continued during future sessions of Parliament.

Attached to this report are extracts from the evidence by way of a collection of written statements made by the Governor of the Bank of Canada and the Deputy Minister of Finance, also tables supplied by Governmental Departments, which material your Committee recommends should be printed in blue book form with this report.

A copy of the minutes of proceedings and evidence is annexed hereto.

All of which is respectfully submitted.

W. H. MOORE,

Chairman.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

THURSDAY, June 1, 1939.

The Standing Committee on Banking and Commerce met at 12.15 a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, I think we might have a further discussion as to what our report shall be in reference to our investigation of the Bank of Canada report. It would be well, it seems to me, to have a discussion as to the nature of our report and as to future proceedings of the committee.

Mr. JAQUES: Mr. Chairman, at the last meeting of the committee we agreed that you should be given an opportunity of putting your views before the committee.

Mr. DONNELLY: Yes, a lot of our financial wizards have told us how to cure our troubles, and you are supposed to give us your views on the matter.

The CHAIRMAN: I think, gentlemen, it might take too long. If this house were going to sit for another month or so I might be able to give you my views.

Mr. DONNELLY: It should not take a month.

The CHAIRMAN: I would take quite a time to express my views in regard to monetary matters. Suppose we have a discussion as to the nature of our report first. Let us decide what we should report. Mr. Jaques, you have taken a rather important part in the discussions, what do you say?

Hon. Mr. DUNNING: I do not think, Mr. Chairman, you can presume on your position as chairman to slide out of the responsibility that attaches to your experience and ability in relation to so important a matter. It has not been my privilege to attend the meetings, but I have read every word that was uttered in them. I have, of course, been astonished at the verbosity of some of the members of the committee, and I have also been astonished to note that while there was a witness on the stand I could not find for three or four pages an answer to any question. I suggest that in view of the nature of the literature and in view of what all of us know you are capable of in the way of a contribution to the subject—I urge most strongly that before the proceedings of this committee conclude you should give us the benefit of that accumulative wisdom which we all know you possess in regard to this matter. I know you will not agree with me entirely, but that does not make any difference; it is important that amid all the nonsense that is spread on the record there should be at least one gem of wisdom.

The CHAIRMAN: Thank you very much, Mr. Minister. What is the idea of the committee in regard to the report?

Mr. COLDWELL: I think the report should be made by those members of the committee who have not expressed their opinions.

Mr. DONNELLY: There are very few of us left.

The CHAIRMAN: Can the minister give us some intimation as to how long parliament is going to be in session?

Hon. Mr. DUNNING: Unfortunately, I do not control parliament. There is this to be said about it though that there are some estimates yet to pass and the supply bills which will not, of course, take very long, usually only a few minutes after the estimates comprising them are disposed of. Then there

is this bill which we have just dealt with—the Central Mortgage Bank Bill—which, of course, must go to the Senate and we will await their disposition of it. It is my hope that we can get this bill reprinted and into the house not later than to-morrow morning. The report of course can be made this afternoon with the consent of the house, but I doubt whether the reprinted bill can be made available so quickly. We are speeding that matter up right now. In any event, this committee could surely have meetings not only to-day, but to-morrow and possibly the next day. If I were making a guess I would guess that the house will not prorogue this week.

The CHAIRMAN: Gentlemen, I suggested to the clerk of the committee and to Mr. Cleaver with whom I had a little conference, that we might draft a report in regard to the Bank of Canada hearings. I have read it, and I shall read it now to you to see how far it meets with your approval:—

EIGHTH REPORT

> By order, February 20th, 1939, the House of Commons referred the report of the Bank of Canada for the year ended January 31, 1938, to the standing committee on Banking and Commerce to enquire into all matters pertaining thereto.
>
> Your committee has held thirty sittings on this reference and has heard considerable evidence.
>
> Your committee in the conduct of its enquiry has at all times had the active assistance and co-operation of Mr. Graham Ford Towers, Governor of the Bank of Canada, and wishes to express its appreciation of his valuable services. Your committee is indebted also to Dr. W. C. Clark, Deputy Minister of Finance, for the historical background of banking and currency in Canada and glossary of monetary terms furnished by him.
>
> Your committee has been unable in one session of parliament to complete its study of so wide a subject and recommends that the study of the subject be continued during future sessions of parliament.
>
> A copy of the minutes of proceedings and evidence is annexed hereto.
>
> All of which is respectfully submitted.

Mr. HOWARD: That is a very excellent report.

The CHAIRMAN: I think that the clerk and Mr. Cleaver have probably expressed the views of the committee.

Hon. Mr. DUNNING: I have only one suggestion to make, and that is that the committee might perform one more useful service if they recommended the publication, as a separate document, of the formal written statements made to the committee by the Governor of the Bank of Canada from time to time. There are formal written statements in reply to specific enquiries which statements contain authoritative information on matters that are of very wide public interest in Canada. Frankly, I have dug through these thirty reports to find them, and I know that the general public will not be bothered doing that.

Mr. THORSON: I move that those statements and documents be so printed.

The CHAIRMAN: We can put that motion into words.

Mr. THORSON: I move that the authoritative statement to which Mr. Dunning has referred be printed as a separate appendix to the proceedings of this committee.

Hon. Mr. DUNNING: I am afraid it would not serve the purpose I had in mind; I am thinking of the public who might want to get it as a separate document.

The CHAIRMAN: A separate bluebook.

Mr. JAQUES: Would that include the brief of the Australian government?

The CHAIRMAN: No, I would hardly say so.

Hon. Mr. DUNNING: All I have in mind are Mr. Towers' own authoritative statements. I have not in mind the controversial material such as Mr. Jaques is now speaking of, so much as the general economic informative material.

Mr. THORSON: That is not controversial at all.

Hon. Mr. DUNNING: Of course, it is all controversial.

Mr. COLDWELL: The report of the Australian commission is not Mr. Towers' report.

Hon. Mr. DUNNING: Except that he adopted it as his own in regard to a series of questions.

The CHAIRMAN: If we put that in, it was understood by the committee that Mr. Jaques could put in rebuttal evidence, and Mr. Jaques' statement ought to go in if the Australian statement goes in, it seems to me.

Mr. COLDWELL: Leave them both out.

Mr. CLEAVER: Mr. Chairman, you will recall that at the last sitting of the committee in regard to that matter, the governor of the bank indicated that he wished to prepare formal statements with respect to two questions which were asked him. I suggest that those two formal statements should be added to the bluebook which you propose to publish.

The CHAIRMAN: If you will allow me to make a suggestion, I really think that Dr. Clark's glossary is extremely valuable and that it should go in.

Mr. DEACHMAN: Take the statements of the total circulation of money and similar totals which were submitted.

Hon. Mr. DUNNING: The totals? I included that in my mind, at all events.

Mr. DEACHMAN: Those should go in.

Mr. THORSON: The idea is that that material should be printed as a separate bluebook?

Hon. Mr. DUNNING: Yes, so that it could have general circulation.

Mr. TAYLOR: In what form would this be edited?

Hon. Mr. DUNNING: It would not be edited at all; it must not be edited at all.

Mr. TAYLOR: Do you mean that the material is simply to go in as answers to questions?

Hon. Mr. DUNNING: No. Wherever the governor made a formal statement in writing to the committee I take it that would be extracted with such exceptions as this committee might now decide.

Mr. TAYLOR: I foresee great difficulties in producing a satisfactory bluebook under those conditions.

Hon. Mr. DUNNING: Is it desirable? I think it is.

Mr. TAYLOR: I think it is highly desirable. I believe the minister is quite correct in saying that the gems should be taken out of the rain and exposed to the light, but I really think you may smash some of the gems while you are doing it.

Mr. CLEAVER: Could we have a meeting this afternoon at 4 o'clock of all the groups interested, and agree on this?

The CHAIRMAN: Cannot we agree now?

Mr. HOWARD: I move, if it has not already been moved—

Mr. CHAIRMAN: Mr. Thorson has made a motion.

Mr. HOWARD: I second the motion that the complete report of the banking and commerce committee be published "as is" in bluebook form called volume 1, and that volume 2 shall contain only the statements of the Bank of Canada and such other material as will throw light on the whole situation.

Hon. Mr. DUNNING: May I suggest that a clearer way to do it would be to add a paragraph to this report and say:—

> Attached to this report are authoritative written statements made by the Governor of the Bank of Canada to the committee from time to time which this committee recommends should be published with this report.

That means that this final report and these extracts which this committee has designated will be published.

Mr. THORSON: I understood that you wanted the authoritative statements published in a separate bluebook form.

Hon. Mr. DUNNING: They would be separate from the evidence; now they are all mixed up through thirty volumes of evidence.

The CHAIRMAN: I really must protest. I think you should leave the word "authoritative" out, because I might say I did not agree altogether with the governor at times in regard to his statements. I think what we have in mind are the written statements of the governor of the bank and of Dr. Clark.

Mr. THORSON: Leave the word "authoritative" out.

The CHAIRMAN: Surely: the written statements or expressions of opinion by the governor of the bank and by Dr. Clark and such tables as were furnished from government departments including the Bank of Canada.

Hon. Mr. DUNNING: Could you add that to your report?

The CHAIRMAN: Yes. Shall the report as amended carry?

(Carried).

The CHAIRMAN: The committee stands adjourned to the call of the chair.

The committee adjourned to the call of the chair.

Report - bound separately